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GERMAN DEMOCRATIC REPUBLIC

New Judicial Review of Administrative Decisions Sketched

23000151c East Berlin EINHEIT in German
Vol 44 No 3, Mar 89
(signed to press 9 Feb 89) pp 222-224

[Article by Heinz Wostry, diplomate in social sciences and law, member of the Social Unity Party of Germany (GDR) Central Committee political staff: "Judicial Review of Administrative Decisions"]

[Text] GDR official organs pass an estimated 20 million decisions annually on civic concerns. They range over a broad spectrum: from building permits and real estate purchasing authorizations to mandatory stipulations for ensuring public order and safety. All such decisions are based on socialist administrative law.

But what happens when a citizen objects to such a decision? Thus far he could appeal to a superior administrative organ or exercise his petition right. State and social control (e.g. the organs of the Workers and Farmers Inspectorate or the trade unions) and the general judicial supervision by the attorney-general's office prove additional instruments for guarding civic rights. And then there was the chance for a judicial review of certain administrative rulings, as in the case of sentences on theft or damage payments for injury in consequence of prophylactic inoculations and so forth.

Now, on 14 December 1988, the People's Chamber passed a "law on court authority and procedures reviewing administrative decisions" that vastly expands the set of administrative decisions to be reviewed. It comes into force on 1 July 1989 and grants the citizens additional legal guarantees. Its juridical competence pertains mainly to the kind of administrative decisions relating to the exercise of the citizens' constitutionally guaranteed basic rights, family welfare, and the protection of personal property. The law also takes into account that the citizens will all the better fulfill their duties to society, the more strictly their rights are protected.

The new law reflects the systematic development of the socialist legal order as much as any other law regulations. The penetrating political, economic, and intellectual-cultural changes in our country are reflected by the law on the one hand, on the other hand it is aimed at purposefully encouraging the further shaping of the developed socialist society as a process of penetrating changes. Thus, obsolete legal norms were suspended, existing ones were perfected or new ones were introduced. In that the protective and regulatory function of our law is made to conform with any given social changes, the law can become fully effective as our state's power instrument and be efficaciously placed at the service of further social progress.

The law is the outcome of target-directed legislation. It was based on extensive practical surveys and sound juridical research. E.g., jurists and officials gave much attention to the "analysis assessment of the legal regulations on the processing of petitions and on the citizens' legal means by the organs of the state apparatus and inferences for further legal refinements," put out in 1987 by the GDR Academy for Political Science and Jurisprudence. The discussion led to the recommendation to improve the legal work in the state organs and systematically further to develop legal protection for the citizens according to plan and in line with SED [Social Unity Party of Germany (GDR)] policy.

It is totally consistent that with the law of 14 December 1988 in certain areas for which thus far only a complaint or petition were possible now the right of judicial review has been established. The precondition is that a citizen has in fact appealed against a court ruling and been turned down by the administrative organ concerned. Then he can, within 2 weeks, request a review from the competent court.

What administrative decisions are involved?

- Cases of state liability, indemnification claims for real estate allocations and for health injuries and damage to real value citizens have incurred while assisting the German People's Policy;
- Denial and revocation of trade and building licenses, measures relating to illegally erected structures, rejection and revocation of real estate transaction permits, rulings on private travel abroad or permanent departures, decisions on the official recognition of an association or citizens' membership in international and foreign associations, housing evacuation orders, the setting of monetary fines, decisions on stipulating the reciprocal rights and duties as between lessor and lessee, decisions on denying the permission to sponsor entertainment; and
- Orders on educational supervision, in families and in homes, objections to recording the criminally endangered, and further decisions.

It is international custom that in matters of security and national defense courts have no competency.

This notable expansion of competency for state courts in administrative matters in no way means division of power in the bourgeois sense. In our state, courts in no way supersede the people's representations nor are their judges unrecallable. Their constitutionally-guaranteed independence relates to their jurisdiction granting them rulings free from external influences, on the basis of the laws. Electorally the judges remain committed and accountable to the people's representations, of course.

The administrative law chambers to be set up in the kreis courts as of 1 July 1989 will operate on the basis of the Code of Civil Procedure already in effect for civil,

family, and labor matters. Judicial review of administrative decisions is initiated upon request. Any citizen is entitled to make one. Administrative decisions made by combines, enterprises, and cooperatives are exempt from review. On the other hand, private craftsmen and tradesmen and contract partners of civic communities get the chance to have pertinent administrative decisions concerning them judicially reviewed. In public proceedings one judge and two lay judges, after an oral argument (not counting exceptional legal cases), decide whether or not the administrative decision and the procedure from which it evolved conform to the laws and other law regulations. This in no way restricts the judicial discretion granted the administrative organ.

There is equivalence for all involved responsibly to exercise their rights and duties in litigation. A citizen can let himself be represented by any attorney or legal council registered in the GDR. If the court finds that legal regulations were infringed, it revokes the administrative decision and obliges the administrative organ to find another decision in conformity with the citizen's rights. In certain exceptions, specified explicitly, the court itself may rule on the matter. That pertains to administrative decisions in which a court has a high expertise for reason of their close relevance to civil, family, and labor law.

If after careful examination the court turns down the request, that decision is final. This does not affect the right of the general prosecuting attorney of the GDR and of the president of the supreme court or of the bezirk state attorney or the director of the bezirk court, as settled in the Code of Civil Procedure, to request a reversal of judgment in a legally valid court decision.

Judicial review is not free of charge. If the court annuls the administrative decision, the citizen is compensated for the prepaid court costs and costs incurred outside of the court (e.g. lawyer's fees). For a few reviews of administrative decisions there is no charge (e.g. in case of voting register entries or classifying a criminally endangered citizen).

The opportunity for a judicial review of administrative decisions makes higher demands on official organs and calls for refining their legal work and for perfecting the officials' legal expertise, so that the administrative organ can deal with the citizen's request understandably from the very start. It is not the officer of justice but the state official who bears the responsibility for the state of legality in his sector. Consolidating and systematically upgrading the task-related legal knowledge of the associates in the state organs and the mayors' support to making their legal work more skillful are as much of a consequence as is the stipulation that in the training and continuing education of the associates of the local state organs and jurists—mainly the judges—administrative law will be given more attention.

Through the judicial review of administrative decisions the confident relations between the citizen and his socialist state are promoted, the state organs' decision-making certitude is enhanced, and law security is further strengthened.

HUNGARY

Clarification of 1956 Events Sought

25000205a Budapest NEPSZAVA in Hungarian
12 Apr 89 p 4

[MTI report: "They are seeking to clarify 1956 local events; letter from Mosonmagyaróvár to MSZMP Executive Secretary"]

[Text] The MSZMP Mosonmagyaróvár City Committee unanimously resolved to request an accurate clarification of the background and actions [that were part] of local events in 1956. This resolution and recommendation was passed on to MSZMP executive secretary Karoly Grosz, requesting him to see to it that an investigation takes place.

It is known that in October 1956 Mosonmagyaróvár ranked second after Budapest in the number of lives lost as a result of armed action. Under circumstances which have not been made clear to date, shots were fired at the crowd which wanted to occupy the border guard barracks, or marched to the barracks. As a result of the shooting almost 100 persons lost their lives, and many were wounded. Soon after the shooting the excited crowd lynched three border guard officers.

The bloody events of Mosonmagyaróvár had an impact on unrest in the surrounding area. From Győr, for example, several truck loads of people of various occupations and ages left the place where the events took place. They were led by Gábor Foldes, the then chief director of the Kisfaludy Theater of Győr. He, and several of his companions were later charged with having pursued counterrevolutionary activities, were sentenced to death and executed. Members of the MSZMP Mosonmagyaróvár City Committee feel that they owe it to the entire population of the city to accurately clarify the events of those tragic days.

POLAND

ZYCIE GOSPODARCZE 'Briefs' Columns

260000382 Warsaw ZYCIE GOSPODARCZE in Polish
5, 12, 19, 26 Feb 89 p 2

[Excerpts from a weekly news roundup column: "Last Week"]

[No 6, 5 Feb 89 p 2]

[Excerpts]

In Poland

[Passage omitted] On 29 January ended in Warsaw the 3-day 19th Convention of the TPPR [Polish-Soviet

Friendship Society], renamed Congress by the decision of the delegates. A message from General Secretary of the CPSU Central Committee Mikhail Gorbachev was transmitted to the participants. Roman Malinowski, the incumbent, became again the chairman of the TPPR National Council, and Prof Henryk Bednarski became chairman of the Main Board.

"Self-government has already become a component of the system. Now the practicing time has arrived," declared Prime Minister Mieczyslaw Rakowski at the National Conference of Self-Government Activists held in Warsaw on 26-27 January. [passage omitted]

Guidelines for selling passenger cars this year have been announced. Approximately 110,000 vehicles will be earmarked for people who made prepayments to the PKO Bank in the early 1980's and approximately 20,000 for sale to plants (including private ones) and institutions, which will distribute them among their employees using cars as part of their duties. An additional 4,700 will be set aside for the handicapped, who will be certified by voivodship health departments, and 19,000 will be sold on the basis of bargaining, of which 8,500 to miners who work on Saturdays off (owners of "G" passbooks). [passage omitted]

Work to implement the restructuring of the PZPR Central Committee, initiated at the 10th PZPR Central Committee Plenum, is continuing. The traditional departments will be disbanded (except the Chancellery of the Central Committee and the Departments of Intraparty Management and Personnel Policy). Fifteen commissions directed by members and candidate members of the Politburo or secretaries of the Central Committee will be formed. It is anticipated that salaried positions at the Central Committee will be reduced by 45 percent. The structure of the voivodship PZPR committees also will be changed.

As of 1 February changes were effectuated in freight rates of the railroads, automobile transportation, forwarding, inland navigation, and rail-boat transportation. In addition, new rates for the transportation of shipments and large containers were introduced by the Domestic Forwarding Enterprise. On the average the transportation fees and rates have increased by 27 percent.

On 30 January official retail prices of pharmaceuticals were increased. The scale of the increases varies. The traditional system of discounts on the purchases of medicines will be maintained, as will be their provision to pensioners and annuitants at no charge.

Our editorial colleague Janusz Ostaszewski became editor in chief of the periodical TYGODNIK ROBOTNICZY. [passage omitted]

Abroad

[Passage omitted] In the Swedish parliament a motion was recently introduced by a group of liberal deputies proposing the substitution of investments in environmental protection by the Polish government for Poland's debt. The Swedish government has long been supporting the idea of substituting projects of this kind for the debt, stated the Social-Democrat Minister of Environmental Protection Birgitta Dahl.

In 1988 foreign trade of the PRC increased, according to the Spokesman of the Ministry of Economic Relations and Foreign Trade Liu Xiangdong. The aggregate value of trade reached, according to preliminary data, US\$79.1 billion, which means an increase of 16.6 percent compared with 1987. The value of exports was US\$40.1 billion (an increase of 15.5 percent) and that of imports, US\$39.3 billion (an increase of 17.7 percent).

In Brussels was held the second round of preliminary talks between the GDR and a commission for concluding the trade agreement (the first round was held last September). A basic problem is the issue of intra-German trade. Certain countries of the Community are dissatisfied with the existence of the "Protocol on Intra-German Trade."

In the lecture he gave in London the renowned American economist Kenneth Galbraith declared that the social policy of the governments of Great Britain and the United States is intended to "relieve our conscience of concern for the poor." Galbraith stressed that one of the oldest principles on which both governments base their social policy is the assumption that "any form of public welfare only harms the poor." The government of Margaret Thatcher, the American economist said, is calling for a break with what it defines as "the culture of dependence." However, in Galbraith's opinion, there is no proof that assistance from the "mentor state" indeed "ruins the morale" of the poor or "draws them away from the available possibilities for employment," as is being officially claimed in Great Britain and the United States. [passage omitted]

[No 7, 12 Feb 89 p 2]

[Excerpts]

In Poland

[Passage omitted] As reported at a press conference by Minister of Transport, Navigation, and Communications Janusz Kaminski, during the next 5-year period an additional 2 million telephones will be installed (400,000 each year, compared with the 150,000 annually so far). All applications for telephones submitted by the end of last year will be granted. The minister is staking his entire career on this by claiming responsibility for fulfilling this program.

Last year LOT Polish Airlines had for the first time in its 60 years of existence carried more than 2 million passengers, of whom more than 1.5 million on foreign routes.

Even before this year is over three regiments of Soviet troops will leave Poland: a tank training regiment, an anti-aircraft rocket regiment, and an autonomous helicopter regiment. And next year a Soviet autonomous landing and assault brigade will be withdrawn.

Dr Franciszek Gaik, scientific associate of the Economics Academy in Krakow, vice chairman of the National Council of the Consumers' Federation, vice chairman of the National Council of the Society for Supporting Economic Initiatives, and member of the Socioeconomic Council under the Parliament, was appointed minister-director of the Central Planning Office.

Book output this year will decline by 16 million copies (last year it declined by 11 million) to a level of about 214 million. Moreover, book prices will increase significantly, because tax exemptions granted last year to book publishing and disseminating institutions have been canceled.

The number of legal acts promulgated by the ministries has declined to 3,700 at present from 7,500 at the end of 1987. (In the 1960's they numbered about 80,000.) [passage omitted]

At the Poznan "Peweks" [dollar store] on Palacza Street one can buy for zlotys 14-inch television sets made by Sanyo, a Japanese firm, and JVC video recorders (also Japanese). The television sets are priced at 869,000 zlotys (previously US\$269) and the video recorders at 1,400,000 zlotys (previously US\$469). It is expected that other merchandise, too, will be sold for zlotys.

The title of "Supermanager 1988" in labor cooperatives was awarded to Wojciech Kornowski, chairman of the Miriada Multibranch Labor Cooperative in Poznan. This contest was sponsored by the editors of the biweekly KURIER SPOLDZIELCZY.

According to CBOS [Public Opinion Survey Center] polls, every second Pole believes that life in Poland is safer than in other countries (3 years ago 55 percent of respondents held this opinion), and only fewer than 9 percent claim that it is safer abroad (compared with 13 percent in 1985). Eighty percent have never been crime victims. Country dwellers and persons in a "better than average" material situation feel more secure. Those living "worse than average" as well as dwellers in large cities and persons with higher educational background feel less secure.

Another CBOS poll indicates that 64 percent of Poles view Polish-Soviet relations as good and 27 percent as neither good nor bad. Only every 12th Pole believes that they are bad.

Abroad

[Passage omitted] The aggregate foreign debt of Hungary is, according to RZECZPOSPOLITA, US\$18.4 billion (both in convertible currencies and in rubles). The net debt amounts to US\$11.3 billion. Hungary pays annually about US\$2 billion in installments of principal plus US\$1 billion in interest. In the immediate future this burden may grow.

The Spanish Minister of Foreign Affairs Francisco Fernandez Ordenez declared that he wishes to avail himself of his chairmanship of the EEC next year in order to expand relations between the Common Market and the USSR and other socialist countries of Europe.

Prospects for the growth of mutually favorable relations between Hungary and the Common Market were discussed at a scientific conference in Budapest which was attended by eminent economists, financial and banking experts, and enterprise directors. At the conference it was pointed out that Hungary was the first socialist state to conclude an agreement with the EEC binding the Common Market to abolish by 1992 a substantial part of quantitative restrictions on its economic relations with Hungary, which should markedly improve the conditions of reciprocal trade. [passage omitted]

The State Statistical Administration of the PRC assumes that this year the growth rate of the economy will be about 10 percent, i.e., it will be 2 percent higher than anticipated in the preliminary variant of the 1989 Plan. Even now experts at that office expect the growth rate of industrial output to exceed 10 percent as against the originally assumed 8 percent, despite the possibility that it may slow down in certain fields, chiefly owing to problems with transportation, raw materials, and energy. On the other hand, the growth rate of farm output apparently will be below that expected by the central government, i.e., 4 percent for 1989 as a whole. In the opinion of these experts, in 1989 China will remain menaced by market imbalances and problems in stabilizing supply and demand. Retail prices should increase by at least 8 percent (the government presupposes restricting inflation to a level of below 10 percent, compared with 18.5 percent in 1988) owing the chain reaction alone of the price hikes and price movements last year, not counting the price changes which will occur in the next 12 months. Pressure on the market and the so-called inflationary overhang are bound to increase: the disposable consumer income at present totals 54 billion yuan, whereas a year ago, at the end of 1987, it was "only" 18.9 billion yuan. It is difficult to find an outlet for all this purchasing power on the market.

Foreign trade of the PRC last year increased by 24.4 percent compared with 1987. In 1988 it reached US\$102.9 billion, of which US\$47.6 billion in exports (an increase of 20.8 percent) and US\$55.3 billion in imports (an increase of 28 percent). Thus, the balance of

foreign trade was negative (US\$7.7 billion) The value of foreign investment in China at the end of 1988 is estimated at US\$8.8 billion.

On the world's list of per capita GNP, published late in June 1988, Vietnam ranks at the bottom, being ahead only of Ethiopia and Chad, according to the well-known Vietnamese intellectual Tran Bach Dang in the periodical TAP CHI KINH TE. In 1988 per capita income in Vietnam was barely US\$130. The balance of foreign trade for the Vietnamese Socialist Republic for the period from July 1987 till June 1988 showed a deficit amounting to US\$1.1 billion.

[No 8, 19 Feb 89 p 2]

[Excerpts]

In Poland

Discussion by the working taskforces and auxiliary taskforces of the roundtable has commenced. [passage omitted] As indicated by an OBOP [Public Opinion Research Center] poll, the inauguration of the roundtable deliberations was watched by 68 percent of viewers, of whom three-fourths watched both segments of the program. When asked whether these negotiations would help improve the situation in Poland, 12 percent responded "Definitely yes," 52 percent "Rather yes," 22 percent "Rather not," and 6 percent "Definitely not." [passage omitted]

On 8 February meetings of the party's worker aktiv were held in Warsaw, Katowice and Lublin, on 9 February in Wroclaw, and on 10 February in Gdansk. The topic was the party's situation in factories and the sociopolitical and economic problems in the light of the decisions of the 10th PZPR Central Committee Plenum. [passage omitted]

On 12 February in Stalowa Wola was held a rally during which the residents of that city and of the neighboring Grebow Gmina [township] protested against the expansion of the Jezioro Sulfur Mine and the Stalowa Wola Electric Power Plant. The rally was organized by the founding committee of the "Wyzwanie" Political Club jointly with the Stalowa Wola Municipal PRON [Patriotic Movement for National Rebirth] Council. [passage omitted]

On 9 February at the Belchatow Brown Coal Mine was signed an agreement between the mine's management and the strike committee, resulting in the strike's suspension until 28 February. (See article on page 3 of this issue).

The Director of the Savings Department at the PKO Bank Krzysztof Mlokosiewicz reported that more than 3.8 million declarations were submitted for the "Contest of the

50,000," including about 3.2 million at the PKO. Altogether, more than 400 billion zlotys was declared for the contest, of which one-half comes from earlier payments.

The first issue of GAZETA PRZEMYSLOWA [Industrial Gazette], a new economic biweekly published by the Ministry of Trade and the Rzeczpospolita State Publishing House, has appeared. Its editor in chief is Janusz A. Wieczorek.

The search committee examining candidates for the competitive position of general director of the Passenger Car Factory (FSO) in Warsaw has completed its work. Now the Minister of Industry will choose from among four finalists (three engineers from the FSO and a lawyer managing a large Warsaw enterprise).

The demand for black-and-white television sets reported by the Association of Domestic Trade Enterprises for the first half of this year will be met 36 percent; for color television sets, 45 percent; for refrigerators, almost 47 percent; for automatic washing machines, 60 percent; for vacuum cleaners, 73 percent; and for furniture (by value), 38 percent. The supply of leather and imitation-leather footwear will be nearly 30 percent short of the demand, and the supply of textiles, 15 percent. The supply of knitwear will meet the demand 35 percent and the supply of underwear, nearly 42 percent.

According to the Press Spokesman of the Ministry of Internal Affairs Major Wojciech Garstka, in the last few years the Ministry's budget has never exceeded 3 to 3.5 percent of the outlays from the state budget; last year it was a little less than 2.9 percent, and this year it will most probably be no higher than 2.5 percent. The Ministry's budget for this year (459 billion zlotys) is almost one-half of last year's government subsidies for milk production (952.4 billion zlotys).

Abroad

[Passage omitted] During a papal audience Pope John Paul II, turning to the pilgrims and tourists present from Poland, declared, "Today I wish to repeat the words of the prayer said by the Church in the mass for the progress of mankind. For I pray ceaselessly for the victory of desire for progress of all my compatriots in the fatherland, and I also pray that the material boons so generously bestowed by God may serve the advancement of every individual, and that all divisions may vanish and equality and justice reign. I pray for this in a special way these days in connection with the new initiatives taking place in our fatherland, so that they may bear that fruit which is so greatly needed by the entire nation, so that they may produce material, economic, social, and moral consequences." [passage omitted]

The Chairman of the Polish Chamber of Foreign Trade Tadeusz Zylkowski paid a visit to the Chairman of the Supreme Council of Spain's Chambers of Commerce,

Industry, and Navigation Chambers, Adrian Piera, who is also chairman of Madrid's Chamber of Commerce and Industry. T. Zylkowski familiarized his host with the new possibilities for Polish-Spanish economic cooperation arisen owing to the promulgation early this year of new laws governing economic activity and cooperation with foreign enterprises, which provide particularly favorable conditions therefor. [passage omitted]

A spokesman for the State Statistical Office of the PRC declared that the nationwide thrift program resulted in a marked decline in industrial output in January. The average value of daily industrial output that month was 10.9 percent lower than in December of last year.

[No. 9, 26 Feb 89 p 2]

[Excerpts]

In Poland

Discussion by roundtable teams and auxiliary teams is continuing. A poll conducted by the OBOP [Public Opinion Research Center] revealed that 62 percent of the respondents believed that an agreement would be reached between the authorities and the opposition, while 17 percent were of a different opinion. Thirty-six percent favored legalizing Solidarity without any preconditions, while 42 percent believe that the consideration by Solidarity of the principal demands of the authorities should be such a precondition. When asked what conditions should be met by a legalized Solidarity, 90 percent of the respondents stated that it should contribute to efficient and productive work and 58 percent that it should not organize illegal strikes and demonstrations. [passage omitted]

In the latest poll of the OBOP (30 January of this year), when asked whether Mieczyslaw Rakowski is a good prime minister, 55 percent of the respondents answered affirmatively, 17 percent negatively, and 28 percent had no opinion. Early in December 1988, 52 percent of respondents viewed M. Rakowski as a good prime minister. [passage omitted]

On 20 February the official retail prices of bread and wheat flour were raised. For example, the price of an 0.8 kg loaf of bread is now 49 zlotys (previously 46 zlotys) and that of a kilogram of Wroclaw flour, 75 zlotys (previously 70 zlotys). The press became more expensive on 18 February. Daily editions of, e.g., TRYBUNA LUDU, ZYCIE WARSZAWY, and SZTANDAR MLODYCH now cost 25 zlotys (previously 16 zlotys), while periodicals now cost 50 zlotys (previously 30 zlotys). On 16 February official retail prices were increased by an average of 8 percent for higher grades of cured meat, including smoked ham, beef tenderloin, smoked pork, cooked ham, beef, and hunter's sausage. Moreover, on 13 February official retail prices were increased for certain dairy products (by an average of 8 percent) and vegetable fats (by about 6 percent). The

raises extended to milk with 3.2 percent fat content, powdered whole milk for infants, whipped table butter, "all-purpose" cooking oil, and dairy margarine.

Minister of Industry Mieczyslaw Wilczek has selected the candidate for the post of general director of the Passenger Car Factory (FSO): he is Henryk Oleniak (51 years old), doctor of jurisprudence and general director of the INSTAL-PROJEKT Industrial Installations Design Office in Warsaw. On 20 February the Worker Council at the FSO voted by secret ballot to accept him as the general director of the factory in Zeran.

This year agriculture is to be provided from demobilized military stores with about 250 Star-29 automobiles and nearly 300 Star-660 automobiles, along with mobile automotive repair shops and Zuk and Nysa vehicles. They will be sold to farmers on a limited bargaining basis.

At the 21st National Contest for Fuel and Energy Conservation four second prizes of equal worth (no first prize was awarded) were awarded to: the Ammonia Department of the POLICE Chemical Plant, for streamlining the technological process; the Stalowa Wola II Electric Power Plant, for modernization; the Institute of Heat Engineering in Lodz, for a research project; and the Gdansk Polytechnic, for a motoroil conservation study.

In Gdansk opened Poland's first private [dollar] coupon exchange office, the manufacturing and trading company Max. It is selling the coupons at lower prices and purchasing them at higher prices than those offered by the banks.

A contract for leasing part of the area of the closed Lenin Shipyard in Gdansk was legalized. The contract (payable in hard currencies) was concluded with the British firm Durainsul Co., Ltd. The leasee will operate the K-2 Hull Repair Department together with its facilities, and in mid-year it will begin to build ships there; first offers have already been made by shipowners from Western countries, the Soviet Union, and Poland. The workforce will be recruited on the free labor market, with priority in employment to be given to highly skilled specialists from the closed shipyard.

Forecasts of the health of Poles are not so good. According to Deputy Minister of Health and Social Welfare Andrzej Wojtczak, in this country there occur at present 500 heart failures per 100,000 capita. Unless the condition of the environment improves and the number of tobacco addicts and alcohol abusers decreases, by the year 2000 the number of heart failures will increase to 700 per 100,000 capita and in 2010 to 800. The number of cancer diseases and cancer-caused deaths also is rising. Pulmonary, bronchial, and laryngeal cancer is most common, and it is caused by smoking in 80 percent of cases. [passage omitted]

Abroad

[Passage omitted] At the offices of the French Ministry of Finance in Paris an agreement for the promotion and protection of investments was signed between Poland and France. [passage omitted]

In Teheran was held the third session of the Polish-Iranian Ministerial Committee for Trade and Economic Cooperation. Polish-Iranian trade will triple in volume compared with last year. The principal item in our imports from Iran will be crude petroleum, whose deliveries will total 1 million metric tons.

West German entrepreneurs interested in establishing or broadening economic cooperation with Poland met in Bonn with Secretary of State at the Ministry of Foreign Cooperation Andrzej Wojcik.

A. Aganbegyan views critically the course so far of the economic reform in the Soviet Union. He wrote, "Thank God [as published], we continue on the road of the economic reform but in making a great step forward as regards drafting proper documents we regress two steps backward so far as their practical application is concerned. Even the new interim guidelines for using state orders during the years 1989-90 retain the features of a plan imposed from the top, with the producers calling the tune. Perestroika is moreover adversely affected by the existing wage standards. Despite the conversion, in some places, to complete economic accounting and self-financing, these standards remain unrevised despite their potential value as major productivity incentives. Where then can other, stronger material incentives for workers be found considering that the prestroika has hardly affected direct producers?"

O. Bogomolov declared that the greatest peril to perestroika is the budget deficit of the Soviet Union, which in 1990 will reach 100 billion rubles. In his opinion, this problem can be overcome by selling to private individuals the land belonging to the state and importing video equipment and computers upon levying high taxes on them.

In January retail prices in Yugoslavia were 14.7 percent higher than in the preceding month. The prices of nearly all products and services climbed, and the inflation was most influenced by the rise in the prices of petroleum derivatives, fruits, milk, housing rentals, and municipal services. Compared with January 1988, the prices in January 1989 were 290.7 percent higher. This is the highest so far inflation index in the Socialist Federated Republic of Yugoslavia.

In an article published in NEW CHINA QUARTERLY the Director of the CITIC (China International Trust and Investment Corporation) Jing Shuping stated that China's policy of opening to the world and attracting foreign capital is intended to create a socialist commodity economy and turn it into a qualified partner in international trade. China's foreign investments, beginning with restaurants being built in Africa and ending with a flour mill to

be built in the United States, are booming, while domestically the government is attempting to restore central control of a chaotic economy. According to CHINA DAILY, last year China spent US\$150 million on opening 168 enterprises abroad. Plans exist for, among other things, building a pulp and paper mill worth US\$1 billion [as published] and a steelworks worth US\$100 million in Malaysia, as well as joint ventures in Pakistan and Zambia to develop copper deposits. China is committed to implementing 553 investment projects in 70 countries and regions, with an aggregate value of US\$2 billion, with a considerable part of these funds being borrowed from foreign banks. [passage omitted]

Four Arab countries—Egypt, Iraq, South Yemen, and Jordan—resolved to tighten their economic cooperation, forming an embryonic economic community. At Amman the prime ministers of the governments of these countries initiated an agreement for establishing the Council for Arab Cooperation; the draft is to be approved at a meeting of the heads of state of these four countries in Baghdad, where this new organization will be officially proclaimed. The purpose of establishing the Council for Arab Cooperation is to eventually bring about a common market patterned on the EEC. Preliminary information indicates that this grouping will be open to any Arab country wishing to join it.

According to the Portuguese Press Agency LUSA, Prime Minister Anibal Cavaco Silva, while speaking at a session of the National council of the ruling Social Democratic Party, predicted that enterprises of the telecommunications, transportation, chemical, shipyard, and financial subsectors will be opened to private capital in the years 1990-91. [passage omitted]

The World Development Bank expects to grant loans totaling nearly US\$21 billion to Third World countries in 1989. New loan pledges by the World Development Bank should reach nearly US\$16 billion. These loans are destined for middle-income developing countries, at an annual interest of 7.65 percent. More than US\$5 billion in loans will be granted at below 1 percent [as published], while the countries to be granted loans under the aid program will be only the poorest countries.

YUGOSLAVIA

Croatian Party Official Discusses Political Crisis
28000077 Zagreb VJESNIK in Serbo-Croatian
6 Mar 89 p 9

[Interview with Dragutin Dimitrovic, secretary of the Presidium of the Croatian League of Communists Central Committee, entitled "We Are All Losing in the Conflicts," reprinted from the Split SLOBODNA DALMACIJA in Serbo-Croatian (date of issue not given) under the rubric: "Excerpts From the Yugoslav Press"; date and place of interview not given]

[Text] [Dimitrovic] The Yugoslav crisis is entering a decisive phase. I am not certain, however, that this is a question of its being resolved. The concept that "the

people happened," or the concept of changes in accordance with that scenario, the relationships in the redistribution of power and thus of authority as well, and the concept that has been achieved through pressures and euphoria, has also approached the area of Croatia, with high ambitions of carrying out a so-called export of revolution. Our assessment must be realistic. If that is achieved, then a new level of crisis will occur, and not a solution. On the other hand, if it turns out that there is no basis in public opinion in Croatia, Bosnia-Herzegovina, or Slovenia for such developments, then it is possible that we may create the conditions for overcoming the Yugoslav crisis on the basis of a democratic dialogue which will proceed from the interests of all peoples and nationalities and the entire working class.

In many respects the rally in Belgrade was an outpouring of euphoria and exclusivism that frightened many people, and some aspects of it were difficult to accept. In this regard, I think that through our television screens we saw Serbian flags in front of the SFRY Assembly without any socialist markings, that we heard statements about treason, and that we witnessed an action very difficult to accept by one president of a republic party who spoke about who should be arrested and added that Serbia, along with the honest representatives of other peoples and nationalities, would settle the Yugoslav crisis. We do not want to debate such matters, because I think that everyone has to face the consequences of his own policy, but we will make an effort to dispel the illusions of the Croatian public that anything can be resolved on such a basis.

Regardless of what happens, events in Croatia will have major significance for the entire Yugoslav situation. In the present situation, of course, a great deal of wisdom is required in order for us to oppose the model of pressure as a means of solving many open problems, through the civilized process of social transformation, while continually comparing ourselves with the developed world. That is the key prerequisite for us, to abandon the area within which the social crisis requires authoritarian solutions and promotes the present forms of the manifestation of social dissatisfaction among the people. Our opportunity to oppose such a scenario lies in the republic's material resources, which provide a chance to avoid radicalizing social relationships within society, but those resources are by no means unlimited. If a trend of prosperity is not achieved, we will potentially be on the brink of such a course of events.

[SLOBODNA DALMACIJA] On what basis can we in Croatia and Yugoslavia successfully come to grips with the crisis?

[Dimitrovic] I profoundly believe that the public is already fully aware that our common prospects do not lie in conflicts. Everyone's enemy is the same inability to liberate people's potential. In that context, we support the efforts for us to choose a competent Yugoslav government that will have the broadest support, and at the

same time, for us to open a critical dialogue on all of the reform issues. We have to proceed constantly from the standpoint of what unites us, from building the awareness that everyone is responsible for his own development, but also from the standpoint of dispelling the illusion that a redistribution of power could give prospects to anyone in Yugoslavia.

The position that we are advocating is the public's participation in this process. In this context, of course, one must emphasize that Croatia is not imposing its concept of development upon anyone, and the results achieved will be the best test of the success of our orientation.

[SLOBODNA DALMACIJA] Of the current events, the most attention is being aroused by the stormy reactions to the announcements by several republic bodies in connection with Kosovo.

[Dimitrovic] The assessments according to which Croatia has been defending the interests of irredentism, and not the unified Yugoslav policy in Kosovo, are essentially aimed at taking away its legitimacy of action, and including Croatia's policy among the forces aimed at destroying the system, which is absolute nonsense. At this time, the most important thing is to give an answer to the question of whether it is possible to curb irredentism by the use of force, pressure, and repressive measures, or whether it will be more effective to offer the concept of a struggle for people, for the creation of an atmosphere and environment in which Albanians can feel themselves to be citizens of Yugoslavia and Serbia. The most important thing in any case is to initiate an interethnic dialogue in Kosovo and strengthen the Yugoslav program vis-a-vis the forces of separatism. Croatia's position on this is clear, and everything else that people try to add to it—the alleged support for irredentism, betrayal of Yugoslav interests, and so forth—is pure fiction, which does not have any political basis and which can be reduced to taking away the Croatian leadership's right to carry forward the Yugoslav initiative and to giving the Croatian public the impression that its leadership does not know what it is doing. No reasonable person will or can deny the sufferings of Serbs and Montenegrins in Kosovo, and it is well known that we have supported the constitutional changes in Serbia; our fundamental concern is still to avoid creating a Belfast or a Basque province, much less a Lebanon, in the territory of Yugoslavia. We are undergoing the test of resisting such a development virtually every day.

[SLOBODNA DALMACIJA] Finally, does the political leadership in Croatia have popular support?

[Dimitrovic] Any policy that does not enjoy support has to fall. In that regard, if the calls for the overthrow of the Croatian leadership that have been coming from some parts of the country to our work collectives are fulfilled, that will be the best proof that the people's support does not exist. Nevertheless, although that policy is perhaps

perceived as rather weak in conflict with the monoliths and certain other organized structures, it is focused exclusively upon satisfying vital human needs; it offers a chance for reform to everyone and it is not directed against anyone, and that, I believe, gives it a transnational character throughout Yugoslavia.

Slovenian SAWP Secretary Seeks Bylaws Revision

28000090 Zagreb *VJESNIK (PANORAMA SUBOTOM supplement)* in Serbo-Croatian 25 Mar 89 pp 4-5

[Interview with Dusan Semolic, secretary of the Slovenian Republic Conference of the SAWP, by Stane Pucko: "Dusan Semolic: The SAWP Bylaws Need To Be Changed"; date and place not given]

[Text] Although in Slovenia they are still just practicing political pluralism, the reactions to it in that republic vary rather greatly and are often very harsh, ranging all the way to the condemnation that it amounts to restoration of bourgeois democracy and a dismantling of the socialist system of self-management, that is, counterrevolution. However, such phrases are no longer welcomed in the Slovenian political vocabulary, which still does not mean that the new alliances are seeking their place in the sun because they are satisfied with the present sociopolitical system. On the contrary, they are not satisfied with it, and they do not hide the fact that they want to improve or change it. Opinions on that question are pluralistic even within the newly founded alliances. The limits on political activity, however, have been clearly defined by the so-called constitutional arch, and that is the basic rule which even the new alliances must adhere to. The central issue, then, is the manner in which political activity is to be organized within constitutional limits so that it is as effective as possible, and that especially applies to the Socialist Alliance. We talked about that with Dusan Semolic, secretary of the Slovenian Republic Conference of the SAWP.

[VJESNIK] To what extent was the content of the recent assembly in the Cankar Center an authentic picture of the Slovenian pluralistic scene?

[Semolic] The meeting in the Cankar Center was an expression of the plurality of this society. We gathered together as people of differing opinion; that is, among the signers of the statement there are differences which we do not conceal, nor were they concealed by the events in the Cankar Center. What we have in common is the statement on behalf of peace and concord, a statement which is an appeal for living together in Yugoslavia. The speakers, of course, display differences which are obvious.

[VJESNIK] Might we first clear up the main dilemma which is faced by a sizable portion of the Yugoslav public: Is a multiparty system being born in Slovenia or not?

[Semolic] For the present, all the new alliances are operating within the Socialist Alliance. That is why we cannot at this point speak about a multiparty system. There are, of course, differing views. Certain members of those alliances favor a multiparty system. That is a subject matter for dialogue and debate. Within the Socialist Alliance, we want this process of democracy to go in the direction of nonparty political pluralism. Political pluralism is not a priori a synonym for a multiparty system. All of that will be debated in Slovenia up to mid-April, when the Socialist Alliance and pluralism will be debated in the republic conference.

[VJESNIK] The issue is being raised, then, of the role and thereby also of the future of the Socialist Alliance. They say in the Democratic Alliance that they will only be negotiating about the conditions for activity within the framework of the Socialist Alliance, while in the Social Democratic Alliance they say that the Socialist Alliance as it is now is not acceptable to them. What are the main points of contention?

[Semolic] The greatest emphasis is put on the problem of that provision of the bylaws of the Socialist Alliance which do in fact favor the role of the League of Communists. The harshest criticism pertains to precisely that point, and it is the reason why the members of the Socialist Democratic Alliance are most opposed to the Socialist Alliance. That provision of the bylaws should really be changed. Unfortunately, the alliances just established have put us on notice to that effect, and I think that there will be no problem over that point. The SAWP Bylaws should be amended so that all alliances, all members, and all individuals are equal. Those changes will be made before the end of April. The second condition which the new alliances pose is autonomy. Nor should there be any disagreement over that, since the autonomy of those alliances and movements is in the interest of the Socialist Alliance. We in the Socialist Alliance have no ambitions at all to patronize those alliances. The common platform, such as the bylaws provide, is all that is required. The Socialist Alliance also has programmatic orientations, and we are also ready to debate them patiently so that we can find a joint synthesis in the political space of Slovenia.

[VJESNIK] Two tendencies have been noted. According to one, the Socialist Alliance should be a kind of parliament, while according to the other it should be transformed into an independent political organization of, say, socialists.

[Semolic] It is true that some are offering the alternative that the development of the Socialist Alliance go in the direction of mainly a coalition of alliances, with no membership of its own, or on the other hand let it become an alliance with members, but without the role of linkage. At this point, the Socialist Alliance is a front of forums, of sociopolitical organizations, and at the same time it is the broadest alliance of working people and citizens.

[VJESNIK] There are also objections to the Socialist Alliance in some of the "old" alliances, for example, in the youth organization and the trade unions. Is it possible that they might withdraw from the Socialist Alliance, and what would that mean?

[Semolic] Should that happen, specific assessments would be required. Now, however, work should be done to reform the Socialist Alliance in the direction of defining the space in which people would join together. Not because the constitutional system says so, but because people themselves have felt that they can do much more in the Socialist Alliance and through the Socialist Alliance they have far greater opportunities to influence political developments and decisions in the republic and the Federation. That is certainly a challenge for the Socialist Alliance to speed up its reform.

[VJESNIK] On what constitutional and legal basis are the new alliances being registered?

[Semolic] According to the position taken by the commission for legislation of the republic Assembly, it is clear that individuals can organize on the basis of the federal and the republic constitutions. There are no explicit conditions for the operation of sociopolitical organizations and alliances. There is a certain space which the legislation leaves empty. It should be mentioned, however, that the new alliances or organizations cannot become part of the assembly system unless they operate within the Socialist Alliance. That is one of the important conditions. The alliances or organizations may, then, be established, but the Constitution defines the framework of their activity.

[VJESNIK] Are the changes in personnel in the leadership of the Socialist Alliance being prepared because of this additional pluralistic composition of the Socialist Alliance?

[Semolic] Even now, we are inviting every alliance which expresses a readiness for cooperation to meetings of the Presidium of the Republic Conference of the SAWP. They are invited as guests, they take part in the debate, and in this way they can influence the decisions of the presidium. We will soon have to solve that problem,

which remains an issue. In some form, the representatives of those alliances must be present in the proceedings of the presidium, since after all those alliances are operating in Slovenian political space. Their influence, of course, varies greatly, and if they operate within the Socialist Alliance, it is normal for their activity to be reflected in its official bodies.

[VJESNIK] Is there a need for the Socialist Alliance to alter its programmatic orientations?

[Semolic] There is. The political terrain of Slovenia has changed quite a bit. People of differing opinion have begun to express their views and demands much more openly. That is why in the Socialist Alliance we must arrive at a program that would reflect the minimal collective political will of inhabitants of Slovenia, and on that basis the Socialist Alliance would be more recognizable if it embraced all those movements and alliances. That program, then, would be the broadest political platform of all of us operating within the Socialist Alliance. We would adopt such a program at the SAWP Congress, which we have not had in Slovenia for quite a long time now.

[VJESNIK] In what way would the Socialist Alliance, seen as a parliament of the entire people, function vis-a-vis the Slovenian Assembly?

[Semolic] The present relations toward the Sociopolitical Chamber are very clear. The broadening of the plural political space opens up new questions concerning the relation between the Assembly and the Socialist Alliance. These are new challenges for the Socialist Alliance. Even now, however, we are overcoming ambitions as to unity within the Socialist Alliance. A very subtle attitude is needed toward the minority opinion if it is not to be stifled in that integrative role of the Socialist Alliance. Differing opinions in the Presidium of the Slovenian Republic Conference of the SAWP have already turned up in the Sociopolitical Chamber of the Assembly. Minority opinions arise, and that is good. It is not the ambition of the Socialist Alliance to play the role of some kind of filter toward the Assembly. Even now, the minority opinion is part of the positions of the presidium and is submitted to the Assembly.

INTRABLOC

Warsaw Pact Offensive/Defensive Doctrine Assessed

23000144 Frankfurt/Main SOLDAT UND TECHNIK
in German No 3, Mar 89 pp 179-180

[Article by Anton Krakau and Ole Diehl: "Defense is Subordinated to Offense"]

[Text] A debate—closely watched in the West—is currently taking place in the Soviet Union about the defensive character of Warsaw Pact military doctrine and, in this context, about the relationship between offense and defense in connection with the "new orientation" in foreign policy. Deputy General Staff Chief Gareyev had already proclaimed in June 1987 that "defensive operations and combat actions represent the basic approach for Soviet forces when defending against aggression."¹ General Staff Chief Akhromeyev again emphasized before the Stockholm International Peace Research Institute [SIPRI] in September 1988 that, when defending against aggression, the "predominant type of military operations ..." would be "defensive measures."²

The following analysis intends to provide an exemplary examination whether and to what extent the announced reevaluation of offense and defense has already begun to affect operational doctrines of the Soviet armed forces. For this reason four articles from the Soviet in-house service periodical VOENNY VESTNIK—a monthly journal published by the Soviet Defense Ministry and rarely analyzed in the West, which deals primarily with matters related to military technology, command of units and tactical operational concepts—will be analyzed. The following articles are involved: "Modern Defense," by Colonel G. Ionin, April 1981; "Principles of Modern Defensive Combat," by the same author, March 1988; "Modern Offensive Combat," by Colonel P. Konoplya (co-author with Colonel A. Malyshev), February 1984 and "The Attack: Yesterday and Today," by Col Konoplya as sole author, December 1987.³

The fact that articles by the same authors on the same subject have appeared within a few years, allows a direct comparison and an analysis of possible changes and reassessments.

When evaluating the comments of these authors, it is essential to keep in mind that all four articles treat tactical operational concepts since both authors are only concerned with the battalion level. It is, therefore, inappropriate to draw generalized conclusions about possible plans and operational doctrines on the strategic level. Nevertheless, some interesting insights can be gleaned both with regard to the temporal dimension as well as the assessments of the two authors from different perspectives.

Relative Standing of Offense and Defense

In the USSR offense and defense are regarded as "different types of combat operations." Both authors in different ways make statements about the relative importance of both with regard to one another and with regard to overall combat operation. Konoplya in 1984 still emphatically defined offense as the "main type of combat," as the only means by which "the opposing enemy can be annihilated" and, therefore, the only means "to secure victory in an armed confrontation."⁴ Even though—as will be shown—Konoplya's comments of 1987 to a large extent correspond to those of 1984, he no longer defines the relative importance of the offense as unequivocally in his later article and avoids any direct comparison with defense, which indirectly may suggest a change in the relative importance of the offense. If one examines Ionin's comments—who analyzes the significance of combat operations as seen from the defense—on the same subject, one notes that in 1981 he stressed the goal of the defense as the creation of "favorable conditions for the transition to a determined offense."⁵ In his 1988 comments this mission remains unchanged. In fact, he says even more clearly that the defense "is subordinate to the offense."⁶ Thus, the role of defense is basically viewed as a combat operation in support of offensive operations.

Types of Defense and Offense

Based on experiences gained in the "Great Patriotic War" and in maneuvers, Ionin explained in 1981 that defensive operations with enemy contact should be executed primarily "during the attack of friendly units in order to repel counterattacks of a superior enemy, to consolidate captured sectors and to protect the flanks of the main forces."⁷ In 1988 he refers to the same subject only as a historic wartime experience.⁸

Defense, in his opinion, can also be carried out without "contact with the enemy," for instance, to protect the coast or national borders. The basic prerequisites for setting up the defense are even more favorable under such conditions because corresponding terrain reinforcements and force preparations can be carried out.⁹ In 1988 Ionin specifically extended this facet to peacetime.¹⁰

In 1984 Konoplya distinguishes between different types of attacks, namely, the "attack on an enemy defending himself" (breakthrough), the "attack on an attacking enemy" (meeting engagement) and the "attack on a retreating enemy" (pursuit).¹¹ He pays most attention, and devotes most space, to the "attack on an enemy defending himself." Herein he distinguishes between the subsidiary category of an attack with "direct enemy contact" and an "attack during maneuver." The latter is said to be particularly appropriate under modern conditions of combat—combat in which the enemy employs

nuclear weapons or high-precision conventional weapons—because then “the combat effectiveness of the units” can be maintained to a considerable extent “until the offense begins.”¹²

By 1987 Konoplya no longer differentiates between different types of attacks but deals only in general with the attack on an enemy defending himself as, for instance, an attack with the objective of “breaking through an antitank system echeloned-in-depth.”¹³

Modern Technologies in Offense and Defense

Konoplya notes already in 1984 with regard to the effects of modern technology on combat operations that the effectiveness and range of conventional weapons would approach that of nuclear weapons. While this trend basically complicates the offense, the most important offensive concepts remain unchanged. It is only necessary better to define the significance of certain aspects of offensive combat in connection with this technological trend.

This would apply, above all, to the element of surprise, to the tactical mobility of units and fire, and to combined-arms combat.¹⁴ In 1987 Konoplya makes similar statements regarding this point.¹⁵

Ionin, on the other hand, arrives at the conclusion that the new technologies tends to make defense more difficult. He notes the technological advances in the field of “fire and strike reconnaissance” and the capability of remote minelaying.¹⁶ However, his conclusion that this complicates the defense appears questionable: the listed technologies are likely to be at least as valuable for strengthening the defender’s fire power as they are for the attacker.

Nuclear Weapons in Offense and Defense

The role of nuclear weapons in combat, according to Konoplya’s more relevant analysis, is such that “modern tactical operations of the forces provide for conditions involving employment of nuclear and conventional weapons as well as for the exclusive employment of conventional weapons.”¹⁷ In 1984 Konoplya had explained even more clearly that an attack may “be carried out with nuclear and with conventional weapons or exclusively with conventional weapons.”¹⁸

Ionin comments in 1988 from the point of view of the defense on the same theme, “the defender must be ready to repel enemy strikes by using all types of weapons.”¹⁹ In 1981 he had still characterized the primary mission of the defense as “the destruction of the enemy’s main forces with nuclear strikes as well as strikes by the air forces.”²⁰ With Ionin, too, one merely observes gradual differences or less emphatic formulations concerning the employment of nuclear weapons in combat but so far no basic conceptual changes.

Parameters for the Offense

Konoplya lists a number of parameters in 1984 for carrying out offensive operations, which—according to his 1988 analysis—are even more relevant today. Thus, the significance of tanks in the attack continues to increase because of further technological development of accurate fire capabilities during maneuver.²¹ Offensive operations, he claims, are perfected by greater flexibility in joint actions by tanks and motorized infantry with intensive support of “artillery fire and attack helicopters.”²² This means nothing but the further development of the offensive combat potential of combined arms.

Emphasis is laid on the requirement to furnish more concentrated fire in the “breakthrough sectors” as a direct response to hostile antitank weapons and to overcome remotely laid mine barriers. The neutralization of hostile nuclear capabilities also has high priority for the offense.²³

Konoplya mentions an expansion of the width of the attack front as another important requirement for carrying out an attack under modern combat conditions. Wartime experience and maneuvers show that the attacker needs “a superiority of four or five to one” to achieve a breakthrough in the main direction of attack.²⁴ It is interesting in this context that Ionin cites the same ratio, a four- or five-to-one superiority in favor of the attacker, as the calculation of the “commanders-in-chief of the armies of the most important capitalist states.”²⁵

Summary

An analysis of the changes in the comments of the two authors over time shows that leanings—which had already become apparent in the beginning of the eighties in connection with the Soviet view of modern combat—are continuing or have intensified to this date. In this process technological advances, particularly with regard to conventional weapons, have played a far greater role than changes, if any, in military doctrine and strategy. So far no radical changes or abandonment of principles have been noted in the development of operational concepts on the tactical level.

It is generally agreed that tactical offensive operations can hardly be completely dispensed with in wartime. Even NATO’s tactical concept of defense—as opposed to the strategic level—holds that offensive operations are indispensable.

The Warsaw Pact announces that because of its military doctrine, and in line with the “new orientation,” a defensive concept is or will become increasingly relevant to its military strategy. If that were so, one could really expect potential offensive operations to play merely a supporting, supplementary role to central defensive operations—similar to NATO concepts. However, such a trend has so far not become evident. Offense must

never be the dominant type of combat if one professes to adhere to a military doctrine of strategic defense. "Defense" must obviously not be "subordinated to offense," as it continues to be according to the comments of the Soviet military theoreticians examined here.

Footnotes

1. M. Gareyev, KRASNAYA ZVEZDA, 23 Jun 87.
2. Cited by C. Bertram, "A Marshall in Stockholm," in DIE ZEIT 7 Oct 88.
3. G. Ionin, "Sovremennaya oborona [Modern Defense]," in VOENNY VESTNIK April 1981; G. Ionin, "Osnovy sovremennogo oboronitel'nogo boyu, [Principles of Modern Defensive Warfare]" in VOENNY VESTNIK March 1988; P. Konoplya and A. Malysev, "Sovremennyy nastupatel'nyy boy," [Modern Offensive Warfare] in VOENNY VESTNIK February 1984; P. Konoplya, "Nastuplenie: vchera i segodnya, [Offensive Warfare: Past and Present]" in VOENNY VESTNIK December 1987.
4. Konoplya 1984, op. cit., p 26.
5. Ionin 1981, op. cit., p 19.
6. Ionin 1988, op. cit., p 19.
7. Ionin 1981, op. cit., p 15.
8. Ionin 1988, op. cit., p 19.
9. Ionin 1981, op. cit., p 15.
10. Ionin 1988, op. cit., p 19.
11. Konoplya 1984, op. cit., p 26f.
12. Ibid., p 26.
13. Konoplya 1987, op. cit., p 22.
14. Konoplya 1984, op. cit., p 26.
15. Konoplya 1987, op. cit., p 22.
16. Ionin 1988, op. cit. p 20.
17. Konoplya 1987, op. cit., p 22.
18. Konoplya 1984, op. cit., p 26.
19. Ionin 1988, op. cit. p 20.
20. Ionin 1981, op. cit. p 15.
21. Konoplya 1987, op. cit., p 22.

22. Konoplya 1984, op. cit., p 24f; Konoplya 1987, op. cit., p 24.
23. Konoplya 1984, op. cit., p 29.
24. Ibid., p 27; Konoplya 1987, op. cit., p 23.
25. Ionin 1988, op. cit. p 18.

POLAND

BUMAR Tank Production, Shift to Civilian Output, Licensing

26000405 Warsaw PRZEGLAD TYGODNIOWY in Polish No 12, 19 Mar 89 p 9

[Article by Tadeusz Biedzki: "Behind the High Wall"]

[Text] In 1987 I flew in a small, sporty Wilga over Gliwice. Suddenly, the pilot turned the aircraft toward Labedy, to the industrial section of the city surrounded by woods. He lowered the aircraft.

"One is not allowed to fly over here," he said, "but I want to show you something."

We were flying over the Bumar Mechanical Equipment Combine. Below, lined up in rows, were scores of brand-new tanks and self-propelled vehicles.

Everyone in Gliwice and all of Silesia knew that Bumar is a large factory for manufacturing tanks and other military vehicles, but entrance into it was forbidden, even for journalists. It was even dangerous to request such a visit.

Now, after 11 years, such a request is not necessary. On the contrary, the factory managers, its directors, invite journalists to visit.

"We will show you the entire facility," said Col Engineer Zdzislaw Kopczyk, the combine's deputy general manager.

"We will try to answer all questions. Well, almost all questions," he corrects himself smilingly.

The combine is huge. Buses transport us from building to building. There is no doubt that this is a full-capability factory. Here tanks can be produced from start to finish. Production starts in the casting shop where frames are cast from special steels and alloys. Other components are produced in the forging shop and stamping plant. All of the components are then sent to the machine shops and then to the assembly rooms. Then the finished vehicles are driven to the test department. Essential tools are manufactured in the tool shop. The research and development center seeks ways to improve operations.

The entire combine is valued at 70 billion zlotys and employs 10,000 to 20,000 people.

The information provided in the previous few sentences does not express the extent of the factory's size. Such a large and modern factory is rare in Poland. Its equipment was designed at the end of the 1970's and beginning of the 1980's. Over 80 percent of the cutting and welding of metal plates is automated, and 20 percent of the machine tools are numerically controlled.

The Secret Is in the Technology

With surprising openness, the managers present what they do and how they do it. Only the officer, who acknowledges that this is the first time he has greeted such a group of journalists at the facility, asks from time to time that a photoreporter not photograph this or that.

I ask Director Kopczyk: "In the final analysis, what can be said about military production secrets. After all, today newspaper headlines can be read via Sputniks. Does it make any sense to conceal the production of tanks? Our enemies are well aware of the construction of our tanks, their components and details. And they do not deny they know what we have."

"It is not a matter of construction secrets," explains the director, "because that is not what is important. As one can easily imagine, it is no secret what tanks from our factory consist of. This is true of East and West. However, how and from what a tank is built as well as production technology are important. Today all countries conceal their technology."

"I will give you an example of secrets in technology," interjects one of the engineers. "Not long ago we purchased some machinery in Switzerland for which we must constantly purchase tools. This costs many, many dollars. Thus, we decided to manufacture these tools in our tool shop. It seemed simple, and our craftsmen were able to duplicate them exactly. However, these tools wear out ten times faster, even though they are made of the best materials. The secret lies in the manufacturing technology. We also have many such secrets that should not be disclosed. For example, we machine the tank frame on a single machine tool, but in other factories in the world 15 machine tools are required. How we do this is one of our secrets."

Is the number of tanks we produce also a secret?

"Unfortunately, yes," confirms Director Kopczyk. "That is one of those questions I cannot answer."

Later in the evening, during dinner, the officer sitting next to me returns to the question.

"How many tanks we produce today," he explains, "is not as secret as how many we could produce in a critical situation."

The managers are more open when I ask about the cost of building a tank.

"I will not tell exactly how much it costs," states Roman Bulik, deputy director of the combine for economic matters, "but I can say that our newest T-52 tanks are more or less of the same class as the West's Leopard tanks and their production costs are similar."

Tanks and the Standard of Living

It is no secret that the need for tanks and other military self-propelled equipment is diminishing. This is the result of international detente and the declaration not long ago by Mikhail Gorbachev concerning the significant tank-troop reductions in the Warsaw Pact countries. These political decisions, made at the highest levels, have a decisive effect on what is happening in Labyed.

It is sufficient to say that in 1987 the production plan was fulfilled, despite the emerging symptoms of decreasing need for military equipment. In 1988 production decreased 30 percent. This year, barely 30 percent of the combine's production capacity will be utilized to meet current needs.

"This alters our financial situation in a fundamental way," says Director Bulik. "This forces us to restructure. Such potent capacity cannot be underutilized; this would mean the bankruptcy of the combine."

The director's statements provoke questions that to date have not been asked in Poland, at least officially. Namely: What is the financial condition of the arms combine? Is it subsidized or does it produce profits? Are production costs analyzed? Are costs ignored, or are the amount and quality of production prescribed? Are there problems with raw materials supplies? And, in general, is the combine in any way independent, or is it completely controlled centrally?

These questions give voice to the very popular opinion that, as a society, armaments are costing us dearly and in a significant way affect our lives, lowering our standard of living.

"This may surprise you," replies Director Bulik, "but the combine is very profitable. We do not receive one cent of subsidy; our profits are high. Our exports are very profitable, at a rate of return approaching 40 percent. In the last 2 years about 80 percent of our production was exported, mainly to the II payments area. Income in terms of dollars and rubles was very high. In short, we earned so much that we were able to equip our armed forces for free."

Director Kopczyk responds to the question concerning independence.

"Of course it is limited," he says. "We do not determine the scope or structure of production. We also do not determine how much we export and to whom. Export is controlled by a special office which receives political instructions. This is understandable. After all, it is the same all over the world."

The managers do not conceal that Bumar receives certain concessions, especially regarding supplies. This should not surprise one considering our economic situation. In past years Bumar also received rebates of 50 percent on income taxes and the so-called popiwek [slang expression for ppww: podatek od ponadplanowego wzrostu wynagrodzen, tax on above-the-plan growth of remunerations].

This year the income tax rebate is limited to 5 percent. However, a 50 percent dividend was declared. This was done to pay the workforce good wages in order to maintain workforce stability. This is important for any enterprise, especially for one that has something or another to conceal, even in a period of great thaw. Thus, the wages are not too bad. Last year the average was 72,000 zlotys. In some departments, workers earned over 130,000 and even 150,000 zlotys. The average profit sharing award approached 200,000 zlotys. As a result the average worker has 18 years of service.

The Civilian Market

There is no doubt that difficult times are ahead for the combine. As mentioned, orders for this year barely cover 30 percent of production capacity. The share of export will decrease to one-half total production. The forecast for next year is for further reductions in demand and reduction of export by one-half. Therefore, civilian production must be increased. This will engender problems that Bumar has managed to circumvent thus far. There will be fewer concessions, and the raw materials priority will be no more.

It cannot be said that the combine's management is looking forward to these changes. A certain amount of anxiety is evident; fears and uneasiness are obvious. But no one is ringing his hands. Bumar always produced

something for the civilian market. There were washing machines, heating equipment, agricultural caterpillar tractors and power excavators.

Currently, three civilian products are being produced: self-propelled cranes in coproduction with a similar facility in Odessa; Warynski-licensed excavating machines; and mine side-unloading cars. Preparations are in progress to produce modern, all-Polish made self-propelled cranes. It is expected that their production will begin next year. In May of this year, the construction of the first of five Warynski-licensed excavators will be completed. Last year 30 loaders were produced, including serial production.

There is much demand for this equipment in Poland. However, some will be exported. In addition, many other smaller products are also being produced here for the market, for example, lamps, components for the automobile industry and automobile trailers.

"We are in the exploration stage," says Director Bulik. "We have thoroughly analyzed over 70 offers from domestic and foreign firms. We are thinking of forming a partnership. It will not be too bad."

However, it will not be possible to use all of the production assets. After all, the combine has equipment that is used exclusively for special production. This equipment cannot be used to produce anything else. It is estimated that about 5 to 8 percent of the machinery stock will not be useable.

In this situation it is difficult not to ask: Will we gain or lose by demilitarizing?

The combine's directors smile when responding. I know that it is not easy to answer such a question. In the end, however, they probably responded sincerely and openly. "Armaments have been produced and sold all over the world; it is and will continue to be a good business. But our best interest lies in peace."

Later, at the evening meal, they add: "If the demand for tanks and other military vehicles increases, we can always increase their production. After all, there are barely a dozen or so such factories as ours in the entire world."

GERMAN DEMOCRATIC REPUBLIC

Deficient Performance of 1988 Economy Reviewed 23000134 West Berlin DIW WOCHENBERICHT in German No 5, 2 Feb 89 pp 53-61

[Text] In the GDR itself 1988 was described as crucial for the fulfillment of the 1986-1990 5-Year Plan. Considered from this aspect, the year's development was unsatisfactory. Admittedly, the weakening of growth was partially due to losses in agricultural output caused by bad weather. Still, the GDR economy as a whole fell behind the growth envisioned in the 5-year plan. It was not just that planning has been scaled down compared with the 5-year plan line, plan fulfillment lags more and more behind the targets set.

The 1988 plan and the State Central Administration for Statistics' report on its implementation¹ yields the following development of the most important indices (percentage real growth compared with the previous year):

	1988 Plan	1988 Actual
Produced national income	4.1	2.7
Industrial commodity production		
—Total national economy	3.6	
—Centrally managed enterprises	4.1	3.7
Net output of industry (centrally managed enterprises only)	8.0	7.0
Net cash revenues (nominal)	4.0	3.9
Retail turnover (nominal)	4.0	3.9
Investments	4	5
Foreign trade turnover (nominal)	2.6	0

A 3-percent rise is reported for the produced national income. However, according to the individual growth rates for the net product (contribution of the sectors to the produced national income), the non-rounded off rate actually amounts to 2.6-2.8 percent. In agriculture, the net product declined by 8 percent. If farming had developed as planned (-2 percent), the national income would have risen by 3.4 percent. It therefore appears that agriculture accounted for only about half of the plan arrears. This confirms the forecast issued here in mid-1988², that the targets set in the 1988 plan would not be achieved.

Planning and Plan Fulfillment

We should not overestimate the gap between planning and implementation. Still, it does indicate the systematic overestimate of the production potential. By comparison with former times, the GDR economy now operates in far more difficult circumstances: The shortages of manpower, energy and materials are worse, man sections of factory plants obsolete, and the results from science and technology fail to be widely applied. This holds good for the manpower potential and the resources of energy and, to a lesser extent, to the efficiency of fixed assets and the productivity raising effects of technical advances. These possibilities are obviously regarded with undue optimism in the plans. This is the result of the philosophical tenet that a "realistic plan (is) always a challenging plan, capable of fulfillment provided all forces and the initiatives of the working people are fully deployed" (Erich Honecker). The often cited "skilled balancing" does not consist of a sober balancing of what can in fact be done given existing resources but involves the hope for "activism, outstanding performances and the development of additional reserves." These possibilities have shrunk:

—The increase in national labor productivity (produced national income per gainfully employed person) has flattened and is now well below 4 percent,

—The reduction in specific production consumption is steadily declining.

Any planning that neglects these longer term trends is bound to produce additional friction. An unrealistically balanced plan results in inconsistencies at all levels, and these spread like waves. The numerous plan revisions for this year represent an obvious indication of this, and so do the increasing complaints about lagging contract fulfillment. Deliveries are not made at the proper date, and/or the quantity and quality fail to be as required³. When before the GDR State Contract Court, enterprises appeal to "contradictions in the planning and balancing process"⁴. This applies even and still to the fulfillment of priority state plan headings. In 1988 there were 450 state plan headings⁵, covering the most important energy sources, raw materials, components, spare parts, equipment and consumer goods. Their total accounts for well over half of industrial production.

Indicators of GDR Economic Development—growth in comparison with last year (in percentage)*

	1981-85 ¹ Actual	1986-90 ¹ Plan	1986 Actual	1987 Actual	1988 Plan	1988 Actual ²	1989 Plan
PRODUCED NATIONAL INCOME	4.3	4.6	4.3	3.6	4.1	2.7	4.0
INDUSTRY							
Commodity production ³	4.2	3.9	3.7	3.5	3.6	-	3.5
Sphere of the Industrial Ministries:							
Commodity production	4.8	4.2	4.3	3.7	4.1	3.7	4.2
Net production ³	7.0	8.4	8.4	6.5	8.0	7.0	6.5
Labor productivity ^{3,4}	6.3	8.4	8.7	6.7	8.0	7.0	6.0

Indicators of GDR Economic Development—growth in comparison with last year (in percentage)*

	1981-85 ¹ Actual	1986-90 ¹ Plan	1986 Actual	1987 Actual	1988 Plan	1988 Actual ²	1989 Plan
CONSTRUCTION INDUSTRY							
Construction output (centrally managed) ^{3,5}	3.4	3.4	3.4	2.5	3.3	2.8	2.1
Completed housing units—in units of 1,000 ⁶	197.8	212.8	215.7	214.2	211.5	219.2	212.2
Units in new buildings—in units of 1,000	122.6	118.6	119.3	114.0	110.0	110.5	107.8
Modernization—in units of 1,000	75.2	94.2	96.4	100.2	101.5	108.7	104.4
AGRICULTURE							
Crop production ^{7,8}	2.4	2.2	-3.0	3.2	-3.9	-11	10
Including: Grain ⁹ (million tons)	10.4	11.9	11.7	11.2	11.4	10	11.6
Livestock market production ^{8,10}	1.1	2.1	3.0	0.6	-1.7	0.1	-0.2
Livestock kept	0.3	-	0.5	-1.6	-	-0.5	-
INLAND TRAFFIC¹¹							
Total freight volume	-3.6	-	-1.5	-1.7	-	2.5	-
Including: Railroad	1.9	-	-0.5	-0.4	-	1.3	-
Road traffic	-8.5	-	-2.3	-2.8	-	2.9	-
Inland shipping	2.3	6.9	6.6	-1.0	-	12.3	-
electrified rail sections ⁶ (km)	164	300	237	338	-	358	322
RETAIL TURNOVER¹²							
Essential and nonessential foods	2.1	4.0	4.1	3.6	4.0	3.9	4
Industrial commodities	2.5	2.7	2.8	3.1	-	2.1	-
	1.7	5.3	5.4	4.2	-	5.7	-
FOREIGN TRADE TURNOVER^{12, 13}							
Imports	9.4	-	1.0	-3.0	2.6	0.3	3.6
Exports	6.6	-	4.3	-4.2	-	0.4	2.9
Balance ⁶ (valuta mark)	12.2	-	-2.1	-1.7	-	0.1	4.3
	+5.2	-	+1.0	+3.3	-	+3.0	+4.3
NET CASH EARNINGS OF THE POPULATION							
	3.0	4.0	4.5	4.7	4.0	3.9	3.5
INVESTMENTS¹⁴							
	-0.9	2.9	5.3	8.0	4.1	5	2

*Absolute values: Output planned or achieved in the respective year.

1. Average annual growth.

2. Preliminary data, some estimated.

3. Actual 1987 data up to 1987 calculated from indices.

4. Based on net output.

5. Actual data up to 1987 include (in addition to construction output) the industrial commodity production as well as the non-industrial services of the construction industry.

6. 5-Year plan data: Average annual performance.

7. Total of crop production; valued in grain units (GE); plan figures and actual data for 1988 take into account the hectare outputs stated by the GDR.

8. 5-year plan figures: Average annual growth, based on the average of the past 5 years with a view to the volume planned for 1990.

9. 5-year plan: Grain harvest to be reached in 1990.

10. Total state yield of slaughter cattle, mil, eggs and wool, valued in GE.

11. Excluding marine shipping and civil aviation.

12. Prevailing prices.

13. Including inner-German trade. 14. Excluding major overhauls; at constant 1985 prices.

Sources: GDR statistical yearbooks. Statistical indicators of short term economic changes in ECE countries, Geneva. Law on the 1986-1990 5-Year Plan (GBI DER DDR, Part I, No 36/1986). The laws on the annual plans (latest: GBI DER DDR, Part I, No 27/1988, pp 311ff). Plan fulfillment reports (latest: NEUES DEUTSCHLAND, 19 January 1989, pp 3ff). DIW computations and estimates.

Investments and "Self-Generation of Resources"

At the present time attention in the GDR is centered on investments. This represents a definite shift in the emphasis of economic policy. Investments had stagnated in the first half of the 1980's. The change began in 1985, since when investments have increased rapidly. The share of investments in the appropriation of the national income had earlier peaked at 24 percent in 1978. Subsequently it steadily declined and, by 1985, amounted to less than 18 percent. The rate of investment then climbed steadily. In 1987 it amounted to just about 19 percent. In 1988 investments were greater by 5 percent in real terms, and the rate is probably still rising. The 1986-1990 5-Year Plan did not set an increase in the rate. The plan called for 2.9 percent annual growth, while economic growth as a whole was to increase by 4.6 percent. It appears that the authorities have realized that the restrictive investment policy in the first half of the 1980's resulted in large gaps, and that the competitiveness of the GDR economy largely depends on the renewal of capacities.

At the same time the responsibility for investments has to some extent been shifted to the enterprises and the role of financing revalued. The code phrase is the "principle of the self-generation of resources." This had been one of the elements in the New Economic System of the 1960's (resolution adopted in 1967). It essentially means that investments should be financed from the enterprises' own resources, in other words from profits and write-offs. Upon recentralization in the early 1970's, this link between profits and investments was abolished; investments were assigned from the center "according to ranking and sequence." Enterprises were given precise instructions with regard to the resources to be allocated to the investment fund. Investments therefore no longer directly depended upon profits.

The principle of the self-generation of resources has now been revived and is being applied in two versions:

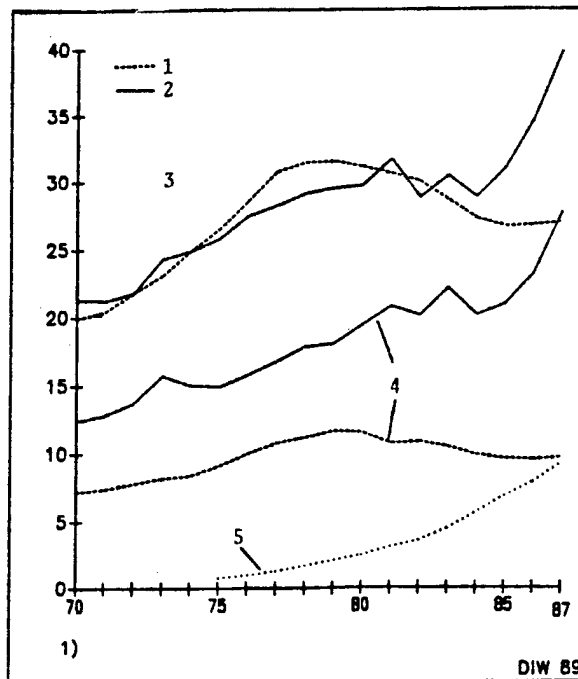
—On the one hand for limited use by the majority of enterprises

—On the other for expanded use in selected combines.

The central allocation of investments was changed at the same time. Beginning in 1989, there is a state plan of investments to be linked with the state plan for science and technology. It is being drafted at the topmost management level⁶ and includes structurally important projects (for instance for the key technologies). Plan indices and subsidies from state budget resources remain. The state plan of investments comprises about 300 projects and 20 percent of total investments (1989 plan).

The limited application of the principle of the self-generation of resources was codified in February 1987. This law took effect in early 1988 and provides for a special investment fund for combines and enterprises,

The Development of Construction and Equipment Investments in the GDR Economy Since 1979 (in billions of marks at 1985 constant prices)



Key:

1. Buildings
2. Plant
3. Total
4. In industry
5. As reported: In-house construction of rationalization aids in the sector of the industrial ministries

additional to the general investment fund. A fixed percentage of depreciations and profits goes to that fund. These moneys may be transferred to the following year and used on the enterprises' own responsibility for investments to the maximum value of M5 million. However, there is one proviso: The enterprises' own production of rationalization aids should be primarily used for the investment realization. This "own production" is to be pushed, and state plan indices are assigned to that effect⁸.

Expanded use has already been in effect for selected combines since the beginning of 1988. The special instructions have now been published as part of a new law⁹. The law regulates the planning, formation and use of the investment fund for projects of the newly introduced state plan of investments and also the investment funds to be self-generated and used by those combines that will be "centrally nominated in the annual plans." The expansion by comparison with the limited application largely consists in the following points:

- All enterprises should endeavor to achieve an investment volume at least in the amount of depreciations,
- No state plan indices are set for the materials aspect of investment planning; instead there are calculation indices evidently intended to offer greater scope to the enterprises¹⁰,
- Loans may be negotiated—within the framework of self-generation,
- There is no limit to the value of the investments (M5 million),
- Linkage with the enterprises' own rationalization aid construction is not so tight as in the case of the lesser system.

Some subsequent instructions were issued¹¹, adjusting the credit decree, financing directives and the decree on the preparation and implementation as well as the official state report on investments to the new conceptions. They document the fact that the supervisory rights of the central authorities have not actually been narrowed.

Balancing also continues and decides the amount and use of resources as well as the actual possibility of investments. Up to now these materials aspects have given rise to most major problems with regard to investments, financial aspects to very few. Nor can we expect self-generation to make any difference to this dilemma. Furthermore, due to the distortion of prices, profits are not necessarily the best criteria of the quality and profitability of enterprises. Still, we may be quite certain that combines and enterprises are better equipped to judge the necessity of investments than is the "Central State Inspectorate of Investments."

Sixteen combines have been working with special rules ever since 1988. Considered by the number of employees, they represent 18 percent of GDR industry. In 1989 the group will be expanded to 52 combines of industry and the construction industry¹². To them applies the "comprehensive application" of the principle of self-generation, something that extends beyond the area of investments:

- In addition to the customary funds (such as the premium fund, performance fund, disposition fund), profits will also finance spending on science and technology, major overhauls and circulating media,
- The net profit levy is set as a percentage of profits, not—as used to be the case—as an absolute. Experiments are still continuing with regard to the percentage (normative); it will vary according to industries and sometimes individual years also,
- The production fund levy is no longer payable from profits; it will now be a cost item,

- The enterprise may pay into its foreign exchange fund 25 percent of any excess plan profits arising from exports and imports and use that money for productive imports (realistically considered, the amounts will be minimal).

No report has been published in the GDR on the experiences of the experimenting combines after the first year of operation. However, 12 combines praised in the plan fulfillment report for fulfilling their production plans, lower costs, consumer goods production, good quality or in-house construction of rationalization aids.

The 16 "Experimenting Combines"

Combine, Location of Parent Enterprise	Employees*
VEB Petrochemical Combine, Schwedt	30,000
VEB Quality and Fine Steel Combine, Brandenburg	38,000**
VEB Electrical Machine Construction Combine, Dresden	30,000
VEB Machine Tool Combine "Fritz Heckert," Karl-Marx-Stadt	30,000
VEB Machine Tool Combine "7 October", Berlin	22,000
VEB Printing Machine Combine, "Werner Lanberz," Leipzig	16,000
VEB Textima Combine, Karl-Marx-Stadt	35,000
VEB Heavy Machine Construction Combine TAKRAF, Leipzig	40,000
VEB Microelectronics Combine, Erfurt	65,000
VEB Robotron Combine, Dresden	68,000
VEB Carl Zeiss, Jena	69,000
VEB Household Appliance VEB, Karl-Marx-Stadt	28,000**
VEB Musical Instrument Combine, Markneukirchen/Klingenthal	24,000**
VEB Cotton Combine, Karl-Marx-Stadt	70,000
VEB Hosiery Combine ESDA, Thalheim	16,000
VEB Oil and Margarine Combine, Magdeburg	5,000**

* 1987/1988 status

** 1986.

Sources: Various press reports from the GDR compiled by the DIW.

Production by Industries

In general GDR industry has not achieved the growth rates for goods production (gross production) or net production as envisioned in the annual plan. Nor did it succeed in lowering costs per 100 marks worth of goods production to the extent envisioned. The plan called for 1.6 percent but only 1 percent was actually achieved. It is reported that some combines therefore suffered losses of profits.

As the result of the clement weather in the first months of 1988, the chronic bottleneck with respect to energy had less impact than in previous years. However, the

plan for the production of raw brown coal failed to be fulfilled: 317 million tons were to be mined, the actual output amounted to only 310 million tons. Electricity supplies rose by 3.6 percent (plan: 4.5 percent). In the meantime the concentration on brown coal is being disputed due to the high cost and pollution involved in the development of new strip mines as well as the pollution caused by brown coal burning. In this connection questions have arisen with regard to the 335 million ton output maximum envisioned in the 5-year plan. Nuclear energy is described as the alternative to brown coal in GDR conditions¹³.

A breakdown by industries is published only for the net production of centrally managed industries. Almost all sectors—electrical engineering/electronics is one of the major exceptions—lagged behind their plan targets, some very much so. The nonobservance of plan targets may often be the result of insufficient component supplies. As long as the balancing on which planning is based does not allow for tolerances but relies on the expectation of the “development of additional reserves,” gaps and variations are virtually programmed. Component supply problems have obviously increased, search and coordination procedures are getting more protracted¹⁴. A new emergency solution to the problem is represented by “capacity related imports”: Imports are to safeguard the smooth flow of production. This applies, for example, to ball bearings, standard parts, hydraulic products and foundry production. At the same time, though the strain thereby arising for the national economy is pointed out.

The introduction of the 1-megabyte storage circuit is emphasized as a special achievement of 1988. It was developed by the Carl Zeiss Jena Combine and finished as a laboratory model in September 1988. It is indeed a remarkable GDR achievement. On the other hand, experience has taught us that it takes 1-2 years before mass production commences at an acceptable profitability.

GDR agriculture experienced many weather related difficulties in 1988. Heavy rains in March, late frosts in April, followed by a long spell of drought caused many crops to be plowed under, and the fields needed to be recultivated. Crop production consequently dropped 11 percent below the excellent yield achieved in the previous year. The grain harvest amounted to 10 million tons, following record harvests in 1985-1987. At the same time the cold, rain and drought varied sharply among the regions. In contrast to the Federal Republic, the GDR was particularly afflicted by extremes of weather. Due to the low output of crop production, the GDR needed to obtain additional imports from the West in the amount of about 500 million valuta marks¹⁵. Livestock production exceeded that of the preceding year. Stocks, though, have declined somewhat.

The construction industry reports a 2.8 percent rise in output. The manpower figures continue to decline. Industrial construction was sharply criticized the year

before; construction plans are now being more rapidly fulfilled. Housing construction reports the completion of 219,000 units (plan: 211,000). This figure includes 110,000 in new buildings and 109,000 modernizations. Building repairs are a bottleneck in all sectors.

The need for track maintenance continues to dominate the transportation sector. Currently the time needed for complete restoration is estimated to be at least 10 years¹⁶. The shift of freight from road to rail had already come to a stop the year before.

Incomes and Supplies

Other than in earlier years, the 1988 development of incomes and retail turnover proceeded on parallel lines (+3.9 percent each). Evidently an attempt was made to better harmonize purchasing power and the availability of commodities. The development of net cash incomes is in principle linked with the development of production. It is likely, therefore, that the loss of output in agriculture resulted in lower incomes. We have not yet learned whether—as in 1987—money was made available from the state budget to make up such losses. 1988 also saw some special developments: The increase in the children's allowance, dating from 1 May 1987, was this time effective in the entire year. Moreover, salary raises and performance related bonuses were granted in some sectors—health and social services, teachers and educators, universities, the police and other security forces.

The 3.9 percent growth rate of the retail trade is made up of a 5.7 percent rise in the turnover of industrial commodities and a 2.1 percent increase in that of essential and nonessential goods. At first glance this is a respectable achievement. It is gainsaid, though, by popular complaints about deficient supplies. Such complaints have been almost more frequent than in 1987. The contradiction is explained on the one hand by higher prices and, on the other, by imbalances on some markets. Even among the 205 headings of the state supply plan (classified as priorities), 57 have not been fully met. Gaps occurred in the supply of, among others, textiles and underwear, home electronics, footwear, sports equipment, furniture and “the 1,000 small articles in daily use.” Of course one of the reasons was the fact that demand grew with rising incomes. This is reflected in the 7 percent rise in turnover in delicatessen stores and 8 percent in luxury stores.

For some time it seemed as if the existing policy with respect to prices of basic commodities were to be discussed in the GDR. Subsidies for these items amounted to 49.3 billion marks in 1987 (1989 plan: 51 billion marks). Considered from the economic aspect, these subventions make no sense at all and indeed incite to waste. And yet all discussions of prices were abruptly ended in the fall of 1988. Juergen Kuczinski, the most senior economist in the GDR, offers an example of the current opinion¹⁷. Though he admits the economic problems it causes, he justifies GDR price policy by saying

that minimum living standards are thereby guaranteed even for those who receive the lowest pensions or wages. According to him, events in other socialist countries that had abolished or limited subsidies, while at the same time raising pensions, the lowest wages and salaries, had shown that the poorest layer had lost even more ground.

Foreign Trade

According to the plan fulfillment report, GDR foreign trade turnover (exports plus imports) has barely changed by comparison with the previous year (177 billion valuta marks (VM), an 0.3 percent increase). The export surplus achieved "more than 3 billion VM," which shows that exports and imports have stagnated equally. The plan fulfillment report says that turnover with the socialist economic area amounted to 123 billion VM (+ 0.9 percent). This development was to be expected, because the price of energy from the USSR continued to drop in accordance with the CEMA pricing formula. On the other hand, the planning agencies had set unduly high hopes about trade with the "nonsocialist economic area." In fact this declined a little. The plan had almost certainly reckoned with a greater increase.

GDR-USSR trade as a whole is likely to have shrunk (January-September -4 percent). One of the main reasons for this is the fact that the price of oil imports fell by 12 percent as a consequence of price averaging. The plan fulfillment report emphasizes that the GDR exports to the USSR were as planned.

Soviet statistics have recently published figures about crude oil exports to the GDR in 1986 and 1987. These differ from GDR reports (1,000 tons):

	1986	1987
USSR statistics	19,351	19,801
GDR statistics	17,067	17,072

Since 1982 annual deliveries of around 17 million tons have been specified in trade agreements. The discrepancies in the above statistics indicate that the GDR imported oil over and above the trade agreements,

possibly at world market prices and in convertible currency. This assumption would also indicate a solution to a puzzle of long standing: According to Soviet statistics, the USSR recorded surpluses of 2.3 billion valuta rubles in its 1982-1987 commodity trade with the GDR. The GDR published turnover figures only but frequently stressed that there was no deficit in its trade with the Soviet Union. The reason might be a bookkeeping difference. The Soviet Union booked in these roughly 2 million tons oil as exports to the GDR. The GDR, on the other hand, might not have considered them as originating in the socialist currency region, because they were paid for in convertible currency.

If we take the figure of 2.3 million tons for the average of 1982-1987, value them at spot market prices and convert them to the official rate of the ruble, we get a total of 1.9 billion valuta rubles. Commodity trade with the USSR would thus appear to have been balanced by foreign exchange payments.

Trade with the other European CEMA countries stagnated. Insufficient GDR deliveries and problems with tourism tended to cloud GDR-CSSR relations in early 1988. The balance of tourist trade with the CSSR is adverse for the GDR. In 1987—as in previous years—6.7 million GDR citizens traveled to the CSSR, only 2.3 million CSSR citizens to the GDR. In January 1988, the GDR restricted the formerly unlimited purchase of foreign exchange to M440 per citizen and year in order to reduce this deficit¹⁸. Since visitors to the CSSR must exchange 40 marks per day, this meant they could stay there for only 11 days. Complaints by the public may have caused the authorities to negotiate with the CSSR. The restriction was lifted on 18 March 1988¹⁹. The CSSR had retaliated by stricter customs regulations for scarce merchandise; the GDR and the USSR followed that example. Larger commodity exports are to create the prerequisites for an expansion of tourism²⁰.

Trade with the West represents a problem. It dropped slightly in 1988, continuing a trend that began in 1985. And yet cyclical conditions in 1988 tended to be rather favorable to expansion. Domestic demand in the Western industrial countries grew by 4.5 percent in real terms, imports (again in return terms) by 8 percent²¹. However, the GDR was unable to profit from this opportunity.

Data on the GDR Debt to the West

	1980	1981	1982	1983	1984	1985	1986	1987	June 1988
Billion U.S.Dollars									
GDR Debt Status¹									
Bank loans (BIS/OECD)	9.93	10.73	9.11	8.60	8.54	10.37	11.69	14.14	14.04
Public and publicly guaranteed trade loans (BIS/OECD)	1.40	1.50	1.62	1.95	1.74	1.45	1.87	1.97	1.95 ⁵
Obligations from inner-German trade ²	1.96	1.62	1.57	1.49	1.00	1.43	2.06	2.61	2.48
Gross debt	13.29	13.85	12.30	12.04	11.28	13.25	15.62	18.72	18.47
Credit balances (BIS)	-2.15	-2.18	-1.99	-3.39	-4.53	-6.53	-7.46	-8.99	-9.10
Net debt	11.14	11.67	10.31	8.65	6.75	6.72	8.16	9.73	9.37
Interest Payments³	1.24	1.63	1.17	0.73	0.61	0.51	0.51	0.60	-
GDR Exports ⁴	4.53	5.37	6.43	7.27	7.14	7.17	7.93	8.24	-
Ratios									
Net debts									
—per capita in U.S.dollars	666	697	617	518	405	404	490	584	-
—as a percentage of exports	246	217	160	119	94	94	103	118	-
Interest payments as a percentage of exports	27	30	18	10	9	7	6	7	-

1. As far as shown in the statistics. Always at the end of the period under review.
2. Accumulated deficit of the GDR, converted into U.S.dollars.
3. Estimated, based on net debt (excluding swing). The following average rates were used for the amount of interest (see UN Economic Bulletin for Europe): 1980: 11.6 percent; 1981: 14.3 percent; 1982: 11.6 percent; 1983: 8.6 percent; 1984: 9.1 percent; 1985: 7.7 percent; 1986: 6.3 percent; 1987: 6.2 percent; first half 1988: 6.2 percent.
4. To the Western industrial countries ("capitalist industrial countries") according to GDR statistics; converted into U.S.dollars via the rate for the ruble.
5. Preliminary.

Sources: BIS [Bank for International Settlement]: Claims and obligations of the reporting banks, excluding inner-German capital transactions, excluding banks not reporting to the BIS, excluding loans by non-banks and supplier credits. BIS/OECD: Statistics on external indebtedness: Bank and trade-related non-bank external claims on individual borrowing countries and territories. Reporting (public and publicly guaranteed trade credits) began in 1982. 1980/1981 estimates. Obligations from inner-German Trade: Trust Agency for Industry and Trade (TSI). DIW Berlin.

The development of oil prices was one adverse element. Reckoned in Deutsch marks, average 1988 oil prices were 20 percent lower than in 1987. The rapid rise in the share of oil and oil products in the GDR's Western trade, formerly a crucial factor in its favorable trade balance, has now begun to act as a brake. The GDR has great difficulty in getting a foothold in Western markets with any other products. In the sector of investment goods the international competitiveness of its industrial products is inadequate; as regards industrial consumer goods, it has trouble meeting the competition of the developing countries.

By contrast to other CEMA countries, the GDR still pursues the policy of raising imports only when matched by a rise in exports. It was noted that the GDR has no intention of getting more loans from the West in order to increase imports²². According to Western reports, the GDR's net debts in convertible currencies have remained fairly steady from the end of 1987 through mid-1988.

We already have complete data for 1988 inner-German trade. According to the Federal Office for Statistics, FRG deliveries have declined slightly in 1988, though an unusually high turnover (+ 22 percent) was recorded in December. A declining trend is evident across the entire spectrum of commodities, though it is most serious with regard to mining products and machine construction. FRG purchases from the GDR have risen a little. The greatest rates of growth were registered by chemical products, nonferrous metals, iron and steel. On the decline were the nominal purchases of oil products and consumer goods items. On balance the GDR suffered another deficit (450 million accounting units) in its 1988 trade with the FRG, caused almost entirely by voluminous deliveries in December.

Planning for 1989

The discussion of the 1989 plan did not begin in the GDR until mid-September 1988, relatively late in the year. The most important indices are as follows:

- Produced national income: + 4.0 percent,
- National industrial commodity production: + 3.5 percent,
- Investments: 76 billion marks: + 2 percent),
- Net cash incomes (nominal): + 3.5 percent
- Retail turnover (nominal): + 4 percent,
- Foreign trade (nominal): Exports + 4.3 percent; imports + 2.9 percent.

The manpower figures will remain fairly steady in 1989; this assumes a speed-up in overall labor productivity. Moreover, specific production consumption is to be reduced to a greater extent.

This improvement is to be the result of more investment, structural changes and the growing effect of technical innovations. Accordingly the growth rates for industrial commodity production in the capital goods industries tend to be set higher than in the 1988 plan: Machine tools and processing machine construction 8.2 percent, general machine, farm machine and vehicle construction 6.8 percent. Electrical engineering/electronics is once again assigned the front runner role at 8.8 percent. The growth rates for office and personal computers, storage and printers are set higher than for 1988. On the other hand a slowdown is planned for the consumer market related industries such as light industry, glass and ceramics, district managed and food industry. Priority will be given investments for industry and the development and application of key technologies.

Purchasing power and stocks of commodities are to be brought into greater harmony. Accordingly a 3.5 percent rise is provided for net cash incomes and 4 percent growth for retail turnover. New directives are oriented to the encouragement of cooperation between industry and commerce and to the stabilization of the availability of the "1,000 small items of daily use." Supplies of high quality technical consumer goods are to be increased, and the emphasis here is on better quality.

The section on foreign trade is more informative than it has been in recent years. Not only is the planned rise in turnover published (+ 3.6 percent) but also the planning of imports (+ 2.9 percent) and exports (+ 4.3 percent). This planning is again extremely optimistic: At least in the CEMA trade we must assume at best a stagnation of nominal trade (due to the trend of energy prices). Western trade—on the decline for years—is also to be significantly increased. In many respects, such as labor productivity, reduction in specific consumption, consumer goods supplies and Western trade, the planning for 1989 signifies a reversal of earlier trends.

Footnotes

1. NEUES DEUTSCHLAND, 19 January 1989, pp 3ff.
2. See "GDR Economy in the First Half 1988," treated by Doris Cornelsen, WOCHENBERICHT DES DIW, No 30/1988, pp 379ff.
3. Karl-Heinz Arnold: "Contract Violated, and A Conflagration Results," BERLINER ZEITUNG, 5 August 1988, pp 3f.
4. Gerhard Walter: "On the Responsibility of General Directors for the Solution to Cooperation Problems," WIRTSCHAFTSRECHT, No 4/1988, pp 85ff.
5. "The Needs of the National Economy Represent the Starting Point," BERLINER ZEITUNG, 18 August 1988, pp 3f.
6. State Planning Commission, Ministries for Science and Technology, Finances and competent industrial ministries, State Bank.
7. "Order on the Planning, Formation and Use of the Investment Fund That Is To Be Generated and Used On the Enterprises' Own Responsibility," GBL DER DDR, Part I/1987, pp 15ff.
8. See the amended version of the planning order of 27 February 1987. GBL DER DDR. special issue. No 1190/1 L.
9. "Decree on the Planning, Formation and Use of the Investment Fund," GBL DER DDR, Part I/1988, pp 279ff.
10. Calculation indices are "figures given the economy managing organs, combines, enterprises and facilities in addition to state plan indices; they orient to the standard to be achieved (standard indices) or the rate of development of the reproduction process." "Oekonomisches Lexikon" [Dictionary of Economics], third revised edition, East Berlin 1978,
11. See GBL DER DDR, Part I/1988, pp 283-309.
12. NEUES DEUTSCHLAND, 26 January 1989, p 4.
13. Dietmar Ufer: "Institute for Energetics' Contribution to the Long-Term Planning of the Energy Industry," ENERGIEANWENDUNG, No 5/1988, pp 161ff.
14. See "The 1,500-fold Partnership," WOCHENPOST No 32.1988, pp 4f.; "The Power of the Combine for Advances in TT [not further identified] Channels," BERLINER ZEITUNG, 24 October 1988, p 3.
15. The valuta mark (VM) is an artificial calculating unit used to report GDR foreign trade. The ratio of the VM to the domestic currency is not known. Vis-a-vis other currencies, the ratio is ascertained via the transferable ruble.

16. Hanns Mauthner on the 13th transport economic seminar at the ISW [not further identified] Zabeltitz, reported in DDR-VERKEHR, No 11/1988, p 323.

17. Juergen Kuczinski: "A Unique Standard of Living Insofar As...", NEUES DEUTSCHLAND, 22 December 1988, p 2.

18. NEUES DEUTSCHLAND, 15 January 1988.

19. NEUES DEUTSCHLAND, 16 March 1988.

20. According to Premier Stoph when justifying the draft law on the 1989 plan. NEUES DEUTSCHLAND, 15 December 1988, pp 3ff.

21. See "Outlines of 1989 Economic Developments," treated by the study group on the economy in the DIW. WOCHENBERICHT DES DIW Nos 1-2/1989.

22. "Eastern Germany To Avoid New Borrowing To Finance Imports." Interview with the GDR Minister for Foreign Trade, FINANCIAL TIMES, 2 November 1988, p 6.

HUNGARY

Return on Capital Justified as Individual Income
25000191 Budapest KOZGAZDASAGI SZEMLE in
Hungarian No 4, 1989 pp 389-398

[Article by Katalin Szikra-Falus, academician and professor at the Karl Marx University of Economics: "On Income Derived from Capital by the Population"]

[Text] Individual income in the form of capital return has existed in the Hungarian economy before, but an extension of the scope and extent of such earnings can be expected. The forced linkage of capital investment and work activity by law has become anachronistic.

The two tasks must be performed simultaneously. On the one hand, the functioning of state property must be placed on new foundations, while on the other, private property must be expanded beyond the small entrepreneurial sector. Participation by private individuals in individual enterprise bodies representing owners may bear strong influence on enterprise management.

Capital will necessarily emerge when productive forces develop to a certain level. This is not a feature peculiar to economies based on private capital. Insofar as part of the capital is made available by the population, individuals contributing are entitled to a return on capital. Such income is appropriate and warranted from an economic standpoint. The concept of exploitation must be reevaluated. One need not worry about the evolution of a stratum in Hungary which does no more than "clip coupons."

Use of individual income derived from capital may be accompanied by increased differences in income and asset levels. These differences must be moderated. Moderation of these differences may be assisted by the evolution of competition among entrepreneurs, and by the increased economic and political security of private property, in addition to taxation and social policies—the latter to be understood in the broad sense of the term. Social dissatisfaction caused by differences in income and asset levels may be moderated by increasing private investment opportunities. One need not be concerned about the preponderance of private capital in our economy.

Private capital must play a far greater role in the socialist market economy or in the mixed economy. The expansion of private capital, and on this basis, the availability of return on capital, or unearned income raises a number of problems which also touch upon ideological issues.¹ The societal utility of the small entrepreneur or small owner is recognized by Hungarian public opinion, even if views to the contrary are expressed quite vocally at times. A September 1988 survey conducted by the Hungarian Public Opinion Research Institute shows that 69 percent of the respondents approved a greater role for private enterprise in the Hungarian economy than it is today. On the other hand, only 50 percent of the respondents approved that private persons and the state could jointly own enterprises.

Income derived from assets is a natural consequence of the existence of assets. Income will accrue wherever there are assets. Income derived from assets, from capital has existed in our economy to date. Examples are: interest earned on savings deposits and bonds, the leasing of real estate, or one time income derived from the appreciation of real estate or other valuables when such property is sold, if the rate of appreciation was faster than the consumer price level, etc. From among these, interest earned on savings deposits and on bonds was regulated by the state in a manner so that the person who has money would lose as a result of having money. The owner of a savings account would not receive unearned income, but instead would incur a "loss without work," and the holder of bonds would clip coupons registering his loss. No one has ever become rich by keeping his money at the National Savings Bank [OTP], and probably never will. On the other hand, other forms [of capital holdings] may in certain cases produce significant real income and an increase in assets to a person who owns that capital.

Income on capital is derived by some small entrepreneurs and small tradesmen. Until most recently, such income accrued in a veiled fashion, almost secretly. Neither theory, nor practical rules and regulations took into consideration that small trade, small enterprise in a modern economy is no longer the operation of the traditional artisans, a "kusztar" [term not explained] workshop. Instead, one frequently finds modern small plants equipped with expensive technology, which requires virtually continuous capital investment. Such

capital investment must produce appropriate return for the owner. For long, the small tradesman's income was treated by the tax system as if it had been income earned as a result of labor. That part of the income which was produced by capital could not be deducted by the owner from the tax base. This situation changed only by virtue of the 1987 personal income tax system. Since January 1988 also private persons may establish joint limited liability corporations with legal entities, but dividends paid to such persons are taxed not as income derived from capital, but pursuant to the rules of personal income taxation. Also the draft entrepreneurial tax law requires that dividend payments be made out of taxed profits. This treatment disregards the fact that private entrepreneurs risk their own capital after which they are entitled to an income to offset interest payments and the acceptance of risk.

The confusion that surrounds income derived from capital on the one hand, and earned as a result of work on the other—the disguising of income derived from capital as income earned through labor—came about as a result of the fact that thus far, our legal provisions authorize persons to participate in a venture with capital only if they also contribute work to that venture. Personal work—capital funding without participation, “silent partner” relationships—transactions which enable a person to acquire unearned income were prohibited. (According to the Budapest Chief Prosecutor's investigations loans granted for purposes of private ventures—a permitted practice as long as the interest rate is within legal limits—frequently veil silent partner relationships. The widespread method of frustrating this prohibition is to declare that the silent partner is an employee.) In my view, this forced linkage of capital investment and work activities has been surpassed for quite some time. In modern economies one can observe with increasing frequency that the functioning of property necessarily becomes separated from personal participation. It has become an everyday phenomenon that a person invests in, (or also in) a place other than his work place. Modern economies could not function without such arrangements. If everyone were to invest his material assets wherever he happens to work, the economic structure would become stiff and distorted, and in the final analysis the practice would render the economy unable to adapt in a flexible manner. On the other hand, the material assets of those who cannot, or do not want to participate in any business activity also may be indispensable to the economy. A large majority of people is not inclined to personally participate in business, because most people do not have the expertise, free time, etc. to do so. For these people the sole way is to take part in business ventures without personal participation. If this holds true, it is hardly justified to condemn unearned income from the outset, and to render impossible a significant volume of unearned income. The investment of individual savings must be permitted more or less freely, within the law. In part, the law on business organizations opens the door in this direction when it enables individuals to purchase stock, or when it

provides that in so-called limited partnerships a person can participate only by investing his savings, his capital. Income derived from capital may now emerge independently in the lives of individuals, in the form of interest produced by capital or as income to compensate for risk.

The Widespread Use of Private Capital

Our economy requires the widespread use of private capital if for no other reason because by now no one doubts that between 1948 and 1950 Hungary experienced “excessive nationalization”². The excess weight of state property—and in a functional view of property most of the cooperative sector may be included in the state sector—is on the verge of being unable to function. At the same time the (governmental) management of state property did not prove to be appropriate either in terms of allocating capital, or in operating capital. Enterprise autonomy, self-governance does not represent a way out of this dead-end street!

The two tasks—placing the operation of state property on new foundations, and expanding the sphere of private property³—must be accomplished simultaneously. It seems that reforming state property must go together with the evolution of multiple sectors within individual enterprises, and the combination of various forms of ownership within individual enterprises. Most recent experience suggests that e.g. the stock corporate form may produce advantages with respect to the movement and operation of capital even if the shareholders are exclusively state organizations or large cooperatives. As stock holders they participate in a more “businesslike manner” in the management of an enterprise than would either government administration or an enterprise council. The more productive functioning of the economy could be enhanced however, if individuals too could “join in” such organizations, if private capital could be put to use also beyond the small entrepreneurial sector. Why?

Because the economy requires that individuals save as much of their income as possible, and that as much as possible of individual savings be returned into the bloodstream of the economy. Quite naturally, individual savings may be returned to the economic bloodstream also in the form of savings deposits or bonds. Enterprises may acquire supplemental financial resources in this way. Nevertheless participation in various business organizations through stock purchase is more advantageous than obtaining credit, because such participation may increase financial resources needed for investments in the final form of providing capital. At the same time, this form of investment also promises advantages to the owner of the capital. Provided that dividend income is substantially higher than interest income, stock purchase for instance, is a more attractive form of investment than savings deposits and bonds. It may prompt such persons to save or to forgo the freezing of their capital in some luxury investments. Such persons would invest only in hopes of receiving a greater income than what they could

obtain in the form of interest payments. And factors which keep some people away from investing, i.e. risk, the uncertainty of the size of dividends which depends on profits earned by the venture, will attract others, by providing the gift of excitement implicit in gambling, while they may have the feeling that by selecting for purchase or sale certain stocks they may forge their own fortunes⁴.

Second, and this is no less important, participation of private persons in organizational bodies representing owners in individual enterprises may exert an influence on the management of an enterprise which can be hardly substituted by any other form of control. Private persons hold a much greater interest in the efficient handling and profitable management of their property than any other organization or institution⁵. Private persons will instantly protest the inefficient handling or unprofitable management of their property. Private persons will purchase or hold stock only if they feel that their interests are secure. They seldom stand in line to purchase the stock of a losing enterprise. (The interest of the manager is somewhat different from that of the owner of capital. In every case, his interest is tied to the economic unit he manages.)

Some feel that this advantageous effect of individual property, e.g. in a stock corporation may prevail only if a majority of the shares is held by private persons. They believe that excess public property will not permit the beneficial effects of privately held shares to materialize. This is so because under such circumstances the conduct of an enterprise is not decided by minority shareholders, but by majority shareholder institutions and organizations. This concern is not unfounded, nevertheless the situation is not quite the way it seems. It is likely that the viewpoints represented by private shareholders cannot be fully disregarded by corporate management, even if private shareholders are in a minority from the standpoint of the number of shares held⁶.

While framing the law concerning business organizations, several persons expressed concern about possible excessive influence exerted by private shareholders, and recommended that in cases involving large enterprises private persons should be able to hold nonvoting stock only, i.e. so-called preferred stock. Perhaps what we said before demonstrates just how untenable this position is. Namely, if this constraint is indeed imposed, the most positive aspect of private shareholding is lost, i.e. control over enterprise management pursuant to the individual interests of owners⁷.

Small private stockholders may enforce their interests primarily through organized cooperation. On the other hand it is also true that small shareholders are more interested in receiving dividends than in increasing the profitability of an enterprise.

The Role of Income Derived From Capital

Capital and income derived from capital has no place in socialist perceptions devoid of mercantile relationships and of the regulating force of the marketplace. Stalin's political economy, which did not view means of production as merchandise, tried to view these as nonexistent factors. Even the word "capital" was erased from Hungarian dictionaries; it was appropriate to talk only about funds, fixed funds, operating funds and means. Even the 1968 reform concepts tried to deflect income regroupings among enterprises resulting from varying degrees of capital utilization, rather than from the efforts of the working collective. As a matter alien to socialism, it endeavored to minimize individual income derived from ownership, capital.

In reality, capital will appear at a certain developmental stage of productive forces (technology) by all means. As soon as assets committed to production become significant, means of production and money necessarily become capital and will function like capital, irrespective of whether private property or common property dominates a given system. This is a feature peculiar not only to economies based on private capital⁸.

We could also say that under all circumstances, capital is a condition for developed mercantile relationships. Means of production and money function as capital in centralized planned economies—even in their most centralized forms—and the return on capital plays a definitive role in economic processes. In these cases the situation may be viewed as the state being the capitalist, and the workers the hired employees of the state. Since means of production play a role in the production of value, there also will evolve income derived from capital wherever there is value, and such income must be returned to the owner of the capital. In the case of state property, capital income will be expropriated, concentrated and invested by the state. The allocation, movement and direction of capital is the fundamental function of income derived from capital in market economies. (Insofar as merchandise, money or capital conditions are distorted, this regulatory function of the marketplace will also prevail in a distorted form.)

Having invested his capital, an individual is entitled to income derived from capital. As we have seen before, there are serious reasons for attracting individual capital. Income derived from capital is warranted and justified from an economic standpoint. It rewards a positive economic conduct, i.e. that the owner of capital does not waste his money, instead he saves it, and by injecting his savings into the economic bloodstream he is willing to risk his savings. This constitutes "unearned income" if you will, but a kind of income we must coexist with⁹, one which cannot be regarded as immoral. There is no need for us to perform [semantic] acrobatics and declare income derived from capital as income earned by performing work. The solution rests not in proving that black is white—that income derived from capital is

actually income earned through work. This cannot be convincing. Instead, we must recognize the role of income derived from capital in our economy¹⁰.

In these days there are indeed a number of unusually immoral types of income earned without work. The economic consequence of these types of income is nothing but negative. These include, for instance, income derived from damaging state property, from the abuse of leadership positions, corruption, fraud, etc. But we could include here also a number of real estate and residential transactions as well as foreign exchange manipulations. These transactions actually irritate public opinion and give cause to public outrage. Income derived from capital which is economically necessary and justified evokes such reactions to a far lesser extent¹¹.

Questions concerning exploitation are frequently asked. In my judgment the concept of exploitation cannot be applied in the way it too often has been in the past. It is obviously absurd to say that a Swedish worker is exploited while a Vietnamese worker is not, just because the latter owns the means of production. Similarly, one can only smile upon hearing that the highly paid workers of Hungarian mixed nationality enterprises are exploited, while those earning half that amount at state owned enterprises are not. Similarly, in common parlance it is unacceptable to say that a Swedish worker is equally or more exploited than an Indian worker (i.e. on the basis of the m/v [abbreviation not expanded] ratio). The production of incremental value, and the utilization of such value by the owner is necessary in every society, and therefore it is inappropriate to apply to the latter the severely pejorative expression "exploitation," merely on the basis of his capacity of being the owner. Economic dependence is the essence of exploitation. This does not contradict the fact that a certain conflict between capital and labor cannot be eliminated anywhere. Such conflict will exist under any and all circumstances.

It appears that we must also reconsider the concept of speculation. Buying and selling securities is a necessary, indispensable activity as long as there is securities trade and a securities exchange. The stockbroker whose function it is to speculate performs a useful function. He may play an indispensable role in the allocation of capital. Accordingly, speculation within legal limits cannot be condemned¹².

The fact that an idea, a modernizing aptitude, an innovative initiative may also perform the function of capital and may become a source of income if matched with finance capital has occurred before, but it is becoming characteristic only in our day and age. In market economies any profitable venture will almost always find an investing partner who provides financing. Thus a person who makes available only his intellectual accomplishment also may receive income on capital¹³. This must become an accepted practice also in Hungary. (Sporadically situations like this have occurred also earlier.)

We were also confronted with concerns about the evolution of a nonworking "coupon clipping" stratum as a result of the broadening of individual income earned from capital investment. This concern is overstated. It is likely that more families than today will receive often larger income derived from capital than today, but in the near future only a few will be able to live well out of income derived from capital alone. On the other hand—and this is more important in the long term—capitalist countries experienced that a large majority of people have a desire to be active and an inclination to acquire. They will not stop their regular work even if their financial condition would by far enable them to do so. (It is true though that in the second and third generations this inclination is frequently less strong than it was in the parents who established the foundations for financial well-being.)

To Restrict, but How?

The expansion of private capital, and with that of income derived from capital may be accompanied by increased differences in income and assets held. It will most certainly create this effect. Capitalist countries too endeavor to moderate such differences, and this would be even more appropriate in a society which professes itself to be socialist. Quite obviously, unlimited ownership by citizens and a huge differentiation in citizen income cannot be reconciled with the idea of a socialist society.

What workable methods are there to restrict material differences in income derived from capital investment?

At first thought one would limit the capital itself, capital which produces income derived from capital: to restrict the size of capital that may be operated by individual citizens and their companies, and further to restrict the number of employees they may have, the value of stock they may sell, etc. Ideas like these were expressed in the course of framing the law on business organizations¹⁴. Such restrictions may be of questionable value however, because they may hinder organic development and the growth of successful ventures, and would prompt persons in possession of significant financial resources to commit their assets to luxury real estate, valuables, etc., or to have their capital bear fruits illegally, all of which would serve no economic purpose, as would a sound economic investment.

Rather than restricting the volume of capital, it would be more useful to limit income derived from capital through taxation. On a global scale, the most important fundamental means by which excessive differences in wealth are moderated consist of social policies and progressive income taxation. Our tax policies, ranging from individual and enterprise income taxes to the taxation of entrepreneurs is subject to much criticism today. In our days, this system presents such burden to taxpayers that even the narrower purpose of taxation is becoming endangered. By reducing investments and

production, also the size of taxable income may be reduced, alternatively income concealed before the eyes of the tax authority may increase. Excessive restriction may retard the enrichment of some, but it will retard progress even more. One cannot drive a car while the brakes are applied¹⁵.

Social policies—improving the lot of disadvantaged strata and groups—are also fundamentally important ways to reduce differences in wealth. We are not talking merely about simple programs to help the poor, but also about the prevention of impoverishment, and the establishment of conditions by which the poor may rise from their predicament. Accordingly, we are talking about social policies in a broad sense, including education, health care, mental hygiene, etc. This, however, requires money, much money. The availability of money for these purposes, however, demands a greater incentive. Bringing about this incentive may require the broadening of restrictions upon the ability to acquire income.

But there are ways to reduce excess income differentials stemming from the expansion of private capital, other than these primary, "direct" methods. Particularly under our circumstances, there exist certain secondary avenues which may be no less effective.

The first of these is the evolution of competition among business organizations and entrepreneurs. This is so, because large enterprise income in Hungary is related primarily to the absence or weakness of competition. By taking advantage of shortages one may acquire an extremely high income. Accordingly, an evolution of competition, a reduction of the intensity of shortage in itself may moderate such income. This may also apply to certain "invisible" income which may be concealed from the tax authorities.

Another reason for extremely high entrepreneurial income in Hungary is that as a result of the political and economic uncertainty of the private sector, those active as private entrepreneurs seldom work with moderate margins and by viewing long term prospects. It is a far more frequent phenomenon that they want to enrich themselves, to maximize their income in the shortest possible period of time, even if this approach is detrimental to their reputation, and even if such practice is in violation of principles of business morals or laws in force. It is likely that by increasing the political and economic security of private property, this kind of conduct will decline somewhat¹⁶.

The social tension produced by high income received by entrepreneurs and owners is not so much because of the total volume of the income, but because of that part of the income which is put to personal use. The owner who lives modestly, and invests and reinvests his income does not serve as an irritant¹⁷. Instead it is the one who wastes money in an extravagant fashion and pursues a spendthrift lifestyle. This type can be found rather frequently in Hungary because of the limited number of

investment opportunities, and the lack of appropriate interest in investing and developing. It is for this reason that the broadening of appropriate investment opportunities, an interest in taking advantage of such opportunities may reduce social dissatisfaction resulting from income differentials.

Finally this thought arises: are we not overstating a bit the danger of social and political tensions which stem from income derived from capital? Doubtless, income levels deemed to be unjust and disproportionate do serve as irritants. But this kind of dissatisfaction does not exist only, and probably not primarily in regard to high income levels in the private sector. (The sense of justice of the masses is disturbed at least as much by the high income levels commanded by enterprise managers whose enterprises have been losing money in the long term.) On the other hand, from the standpoint of people it is their own absolute well-being that is of primary importance, and not their relative well-being, as compared to strata whose members are better off. The real problem is not the fact that others have become rich, but the large scale deterioration of their own situation, and the rapid decline of their real wages which materialized as a result of price increases and high rates of taxation.

This question is frequently asked: how much of socialism will be left if, as compared to the present situation, private capital is permitted to substantially expand in our economy, if an increasing part of the population will acquire income derived from capital? The answer to this question is very difficult. We do not have a "valid" image of socialism today, and we will not have one in the future, in the sense that we had one in the old meaning of that term. Time has transcended utopian approaches. As an appendix, however, a few fundamental facts may be stated. Foremost of all we should say that we need not worry about an excessive role played by private capital in Hungary. If for no other reason, this follows from the fact that funds available to individuals for investment purposes are rather limited, and will remain limited also in the future. According to some estimates, in the next 10 years we may count on private capital investments amounting to a maximum of 100 billion forints, an amount which is a minuscule part of the total capital of the people's economy¹⁸. We cannot estimate even with this degree of accuracy the amount of foreign capital investment that may be expected, but one may be certain that foreign investments in the future will not fundamentally change the proportions of capital sectors¹⁹.

On the other hand, our economy becoming efficient is an existential condition for our system. In comparison all other issues are subordinate²⁰. Without efficiency, none of our positive goals can be accomplished.

Footnotes

1. "Namely, we are confronting one of the most difficult ideological issues when we seek an answer to this question: to what extent do we have to "love," or "prohibit, tolerate

or support" the person who not rarely saves his assets, and willingly or unwillingly operates his assets in Hungary in the form of capital." (Laszlo Gyorgy Asztalos)

2. "At the time state property was established, the breadth of nationalization was not determined on the basis of rational economic thought, but rather on grounds of political and ideological considerations. They did so in a manner far more broad than what would be desirable and commensurate with the developmental level of productive forces." (Balazs Hamori)

3. Many hold the view that it would be desirable if the ratio of workers employed in the private sector would reach 25, perhaps 30 percent.

4. The money held by private individuals is needed not to the least by small and medium size enterprises, because the development of the most successful small enterprises into medium size enterprises may be an important part of an organic way to accomplish structural change.

5. "The market is not able to function without businessmen for whom the result of doing business and the growth of capital is important." (Marton Tardos)

"There is a need to establish incentives in regard to social property." (Julia Zala). The outcome of doing business is important not exclusively from the standpoint of the private owner, and individual interest in social property can be established not exclusively by providing a share of that social property. Nevertheless the overwhelming force of private ownership is beyond doubt.

6. "However small amount of private capital flows into a stock corporation, and if by chance the enterprise is badly managed, those few percents of interest can make so much noise at the annual meeting that it will change the management policies of an enterprise." (Jozsef Petrik's comment at a round table discussion concerning the Law on business associations. PARTELET No 6, 1988)

7. A discussion of the various companies which operate wholly or in part with private capital is beyond the scope of this study. Nevertheless it appears as warranted to call attention to the fact that it would be a mistake to omit from among these the companies which construct or rent apartments. Private capital has been excluded thus far from this area, at least by law, although by increasing the supply of residential dwellings the influx of private capital would, in all likelihood improve the present tragic situation of acquiring an apartment.

8. "The developed production of goods—as the coordinating form of social division of labor—is the basis of both capitalism and socialism. Developed production of goods is by all means (even in socialism) a capitalistic production in the sense that in order to have developed production (venture) significant production forces must

be tied down as capital, expressed in the form of money, conveyed through the functioning of money and in a controlled fashion." (Jeno Barsony)

9. "It appears that through a prolonged historical period we will once again have traveling company ... economic forms which enable the acquisition of unearned income—in the traditional sense of that word." (Gyorgy Marosan, Jr.)

10. It is not necessary to prove that capital itself is a product of earlier work activity. It may be that, or it may not be. It makes no difference from the standpoint of the focus of this study.

11. "Legitimate income derived from assets undoubtedly creates tensions, and it renders for instance the moderation of the unequal opportunities faced by the young generation more difficult. On the other hand it is equally clear that this is not the sole, and the most damaging form of unearned income (moreover in certain cases it is an expressly useful form)." (Balazs Hamor)

"Accordingly, one must protect socialism not from recognized, regulated capital investments which have been integrated with the social order. Instead, one must protect socialism from quasi legal, unregulated capital investments which are "latent, not integrated, and irrational" and have no clear relationship to society." (Laszlo Gyorgy Asztalos)

"Those familiar with the functioning of the domestic market, and with the actions surrounding the sale of residential dwellings controlled by councils will know that we are not, by far, feeling strange about unearned income. What we feel strange about are those who are obviously without work, who are admittedly without work." (Laszlo Antal)

12. "...speculation is actually a means which plays the very important and equalizing role of sharing risk, and of dealing with risk." (Tamas Bacskai)

13. "From the standpoint of entrepreneurial ventures the monopolistic character of assets has ceased to exist, because we have developed a way to develop money through banks and the nation. Venture capital is available for every credible and promising venture. Assets are increasingly losing their monopolistic character because today's financial institutions expressly seek potential ventures which promise to be profitable." (Jeno Barsony) These thoughts perhaps apply more to the future, nevertheless the indicated trend is apparent.

14. The preliminary draft law intended to establish maximum limits for the organizing capital of limited liability corporations composed of private persons at 10 million forints, and in regard to limited partnerships at 1 million forints. Under circumstances when a not particularly luxurious apartment costs 3 to 4 million forints, and a house even more, this idea was not serious. As

approved, the law on business organizations contains only one restriction as to capital size. The limitation is that insofar as all members of a business organization are natural persons, the company may not employ more than 500 persons. Most likely, this limitation will not present a barrier to practical development for a long time to come. (The Hungarian Public Opinion Research Institute's already mentioned 1988 survey included a question related to this topic. About half the respondents felt that this limitation was appropriate, most of the rest thought that the limitation was too broad, and only a few felt that the limitation was too tight.)

Regarding possible enrichment processes that could accompany individual shareholding many tried to slow down the enrichment process by emphasizing the amortization of stocks. An amortizing stock is one whose face value is written off partly year after year, and becomes the indivisible property of the collective. The collective decides concerning the distribution of dividends. Without debating the utility of solutions like this in certain cases, a general, broad application of this concept is unacceptable. It would not have the needed power to attract and the incentive effect. (Indivisible property is one of the weakest points also of the cooperatives.)

15. If we do not keep in mind this fact, we will easily experience what Khrushchev thought of strip tease. (An anecdote from the first half of the 1960's: The first Soviet strip tease was presented to Khrushchev and his entourage. The ladies present themselves on the podium: Jelena Kuznyecova, bearer of the outstanding worker medal since 1932; Varvara Vorobjeva, hero of the Great War Defending the Homeland and a union member since 1928; and Valentina Kujbiseva, the hero of the interventionist struggles and a party member since 1920. At the end of the show Khrushchev remarked: "I'll be damned if I understand what Westerners like about strip tease.")

16. Economic conduct which violates the interests of society and of the community does not occur in the private sector only, of course. "Some ideas may emerge naturally in the course of making a profit, which violate the societal public interest. To commit such violations, however, one need not be a private owner. Similar endeavors may be discovered also in the social sphere." (Mixed property is not private property. Rezso Nyers' statement, NEPSZAVA 29 December 1988.)

17. When unemployment threatens, an entrepreneur who creates new jobs may earn special respect from society for doing so.

18. According to Laszlo Gyorgy Asztalos' estimates by 1995 approximately 7-10 percent of state assets would be transferred to minority private ownership.

19. In addition: "Mixed ownership cannot be categorized as private property. An enterprise in which the state's share amounts to 30, 40, or 50 percent, state

influence will continue to prevail." (Mixed property is not private property. Rezso Nyers' statement, NEPSZAVA 29 December 1988.)

20. "An efficient economy and well-being at the societal scale represent more fundamental interests to socialism than, for instance to sustain the principle that a member of a socialist society cannot acquire unearned income." (I. Madarasz). [Bibliography omitted]

2,000 Workers Forced to Take Leave At Ikarusz

Chassis Price Dispute

25000197 Budapest NEPSZAVA in Hungarian
8 Apr 89 p 4

[Article by Robert Gal]

[Text] As reported yesterday on the basis of an MTI [Hungarian Telegraph Agency] report, as a result of price disputes and delayed deliveries 2,000 workers at the Ikarusz plants in Szekesfehervar and Budapest are taking forced leave beginning on Friday and Monday respectively. There is nothing surprising about this, even though the news item commanded the attention of many. Within the domestic industrial structure in need of change, individual products, equipment, or for that matter the production of buses is linked to a system of relationships which stands on weak footing, and which can hardly be labeled as free of special interests. Confusion surrounding contracts, protracted pricing debates, and failure to abide by delivery deadlines frequently accompany inter enterprise relationships.

The Shipper Is Stronger Than the Buyer

These relationships are constrained, because more than once the main contractor has been forced to retain a partner he knows is unreliable. Nevertheless, in the absence of other manufacturers, he is forced to compromise and accept the increasingly untenable situation that evolves in the course of several years. Thus it comes as no surprise that a contract sanctioned by signatures remains divine grace in writing, and performance on the contract becomes devalued and turns into a secondary matter.

One should only ask the managers of that recently reorganized large enterprise in Angyalfold, just how many times they had to rearrange shifts and work assignments as a result of their dependence, and how many times they had to stop the machines, true, for a few hours only. Certainly, their response would not be assuring to anyone. Needless to say, it is also part of the truth that in case component parts must be manufactured, subcontractors too become main contractors, just as the plants which assemble and deliver the final product. As I said: there is nothing unusual about the fact that in the Szekesfehervar plant of Ikarusz exactly 1,200 workers could not begin to work yesterday morning.

The huge plant—the size of the People's Stadium—appears to the outsider like Sleeping Beauty dreaming. An orphaned welding torch here, a half-assembled bus there. Some tools rest on it, and above there is a huge crane. As if it were waiting to lift some huge steel plate. All is quiet, the silence irritates.

"This plant is like an empty department store," according to trade union committee secretary Istvan Nyari. "On Monday we will hold a workers' meeting. We will inform the workers of the untenable situation that evolved."

What actually happened in the Ikarusz plant at Szekesfehervar? Factory president Laszlo Gyuracsek was informed by telephone on April 5 that the Csepel Automotive Works decided not to deliver any more floor frames until its price offer is accepted. The president instantly dispatched a telex message to the subcontractor. Among other matters it had this to say: "it is our determined intent to accept price increases from all our suppliers only to the extent that we are able to convey such price increases in the framework of socialist exports."

"Thus far, we were able to resolve in the process any problem we may have had with those at Szigetszentmiklos. Production continued despite such problems," according to a calm Gyuracsek.

He is calm, even though he would have reason to be nervous. Ikarusz of Szekesfehervar is incurring a loss of 60 million forints per day. "But that's nothing," the president adds. "As a result of the decision made by Csepel Automotive Works, compliance with the Soviet-Hungarian interstate agreement also becomes questionable. This carries some severe danger. We receive natural gas, oil and cars from the Soviet Union only if we deliver finished buses on schedule."

Price Increase Bankrupts Factory

"Csepel Autoworks intends to raise its chassis prices by 10 percent. We can recover from the Soviet importers a maximum of 3 percent, not a penny more. And even that we can recover only by virtue of sweat and blood," the president points to economic data. "Look, insofar as 1989 is concerned, we received a firm commitment for the manufacture of 337 chassis, instead of 520 [we asked for]. I don't know what's going to happen to the rest. But equally, I do not know when the present debate is going to be settled."

"Previously the leaders of the Szigetszentmiklos factory argued that delayed deliveries were caused by parts shortages. We told them in turn: Send the chassis anyway," according to the president and the trade union committee secretary who said these words at the same time. "We may soon report that we are bankrupt if we

accept the partner enterprise's offer. Our reserve supply of chassis was exhausted yesterday, this is why we had to send our workers home on forced leave."

But let's hear the other side, the Csepel Automotive Works' story. After all, that's how it should be, and I'm dialing the number at Szigetszentmiklos asking for production manager Dr Csaba Kosaras.

It Should Be Settled Between the Two

The secretary politely declines: The production manager will be prepared to see journalists in the afternoon only, under no circumstances before. Even though his story is certainly interesting. For example: Do they want to convey the price increases imposed by their subcontractors? Taurus, the tire manufacturer or Raba which makes the engines? Later on I learned from steel workers union secretary Zoltan Hodi that Taurus wants to raise its prices by 40 percent, and Raba by 10 percent.

Another phone call, I'm calling the trade union committee secretary of Csepel Automotive Works. He is instantly available. "Just now we are going to discuss the constrained situation," says Karoly Sarkadi, then adds: "Doubtless, Hungarian economic leadership decided on a difficult course."

Around 3 pm, Zoltan Hodi informed me that representatives of the trade union committee at Csepel Automotive Works came to visit and recommended that in the future trade union committees involved in the manufacture of vehicles coordinate their activities.

Several alternative solutions are developed by those in authority to resolve the dispute between Ikarusz and Csepel Automotive Works. The most fortunate alternative would be for Ikarusz and Csepel Automotive Works to resolve their problems among each other. Help by the government in the form of reduced taxes to be paid by the enterprise that got into trouble is also conceivable. A third alternative would be for the ministers of industry and commerce to prompt the government to take a position regarding a price agreement as soon as possible.

Quite naturally, no assuring decision has been reached at this time. The losses of Ikarusz of Szekesfehervar—and of the Hungarian economy—increase day by day. But for how long? And what will happen to the 1,200 workers on forced leave, and with the others, because no doubt, sooner or later Csepel Automotive Works too may be confronted with similar threats.

Ikarusz May Return to Work

25000197 Budapest NEPSZAVA in Hungarian
12 Apr 89 p 1

[Unattributed article: "Today Ikarusz may operate already—half year postponement granted by the banks"]

[Text] A half solution emerged regarding the protracted price and financing dispute that surrounds the manufacture of buses. It was triggered by the fact that last week

Ikarusz, and its largest domestic cooperative partner stopped the delivery of bus chassis. Mediation continued at the Ministry of Industry on Tuesday. Minister of Industry Frigyes Berecz, and Commerce Minister Tamas Beck, together with Finance Minister Miklos Villanyi and Hungarian National Bank president Ferenc Bartha joined the negotiations.

According to the agreement, banks dealing with the affected large enterprises will provide guaranteed financing until the end of the first half of the year. The cooperating partners have half a year to settle their price disputes. In addition, they must examine the possibility of organizational modernization. They will submit a report to the government concerning this possibility. This is an urgent matter, if for no other reason because the manufacture of public road vehicles encompasses one quarter of the Hungarian machine industry, and this sub-branch has 100,000 employees.

At the same time the government wants to avoid even the appearance that the mediation concerning the present price disputes could serve as a precedent, because fundamentally this is a dispute between enterprises.

Csepel Automotive Works president Gabor Lukacs stated that on Tuesday they began delivering bus chassis to Ikarusz, and therefore at the Budapest plant workers may resume work on Wednesday. This may take place in the Szekesfehervar plant at half capacity, but again beginning on Wednesday, but it is possible that work will resume only next Monday on all assembly lines. Just which alternative is more economical is still subject to examination. The fact is that the stoppage thus far has cost 300,000 million forints in goods not produced. The manufacture of 190 buses was not finished.

Ikarusz Resumes Production

25000197 Budapest NEPSZAVA in Hungarian
13 Apr 89 p 4

[MIT Report: "Continuous delivery still uncertain: Partial production began at Ikarusz"]

[Text] Following several days of forced stoppage the Ikarusz plant at Matyasfold began production at full capacity on Wednesday. Production at a 60-70 percent capacity will begin at the Szekesfehervar plant today. In Szekesfehervar all assembly lines will be operative beginning on Monday only. On Wednesday, the Budapest plant completed 20 vehicles, after the chassis arrived from Csepel Automotive Works.

It is known that work resumption was preceded by two days of mediation at the Ministry of Industry between the two firms involved in the price dispute, as well the heads of the Ministries of Industry, Commerce and Finance, and of the Hungarian National Bank. An agreement was reached, according to which bank credits will support production during the first half of the year. At the same time, on Wednesday the presidents of both

Ikarusz and Csepel Auto stated that the situation is still unclear insofar as at least 50 of their subcontractors are concerned, and that further price negotiations would have to be conducted with those. Prices and terms will be agreed upon with Raba Hungarian Wagon and Machine Works this week. Long term and continuous delivery of parts and components from the rest of the industrial cooperative partners is still rather uncertain.

The two large enterprises will enter into negotiations with the respective banks concerning the conditions by which credit will be granted.

Budget Balancing Not Seen as Priority Task

25000204a Budapest NEPSZAVA in Hungarian
8 Apr 89 p 3

[Interview with Robert Hoch, deputy director Economic Science Institute, Hungarian Academy of Science, by Robert Gal: "Insistence on a Balanced Budget Hinders Reform Progress"; date and place not given]

[Text] By now it has become obvious that the economic policy of the past decade is bankrupt, because its targeting is wrong and because the instruments of economic policy are missing, according to economists Robert Hoch and Eva Radnoti in a study entitled "Evolution Without Idling" prepared at the request of the National Planning Office. A program which separates in time the stabilization period from the evolutionary period is gravely mistaken. Theoretical considerations and experience thus far clearly prove: Stabilization and consolidation is possible only in conjunction with evolution, the recently finished and finalized study adds. We conversed with Hungarian Academy of Science, Economic Science Institute deputy director Robert Hoch about the way the authors envision the road that leads out of stagnation.

[NEPSZAVA] Doubtless, the fundamental economic policy instruments of the stabilization period consist of general restrictions and holding back. But for how long can this be done?

[Hoch] The government has pursued a restrictive policy ever since the beginning of this decade. Although this might have been warranted for a year or two, the failure of this approach has been proven. In my view the feedback process—prompted by holding back the so-called restrictive spiral—is pushing the economy deeper and deeper [into a crisis]; it is also corrupting the economy and society to an increasing extent. The most important condition for emerging from the crisis is a deep-seated change in the economic structure, this, however, is possible only if it takes place as a joint effect of economic policy and the workings of the marketplace. A new structure cannot come about by virtue of mere destruction. Without providing incentives for the growth of activities, and without supporting the activities which are efficient in an economic sense one cannot perceive an economy in which income production is on the increase while losses decline.

[NEPSZAVA] There is much talk these days about balance of payments. It seems as if this would be the fundamental principle which serves as a starting point for the political sphere.

[Hoch] Indeed, there are many who view the balance of payments and a balanced budget as the foundations of political stability. This interpretation also accommodates double-digit inflation. But it also accommodates the unstable situation of the population and of the productive sphere. A balanced budget, as a priority economic policy goal, hinders the actual progress of reform. A qualitative change in our economic management system can be brought about only by a single reform package. Measures which create political shock but do not produce economic benefits—as, for instance the introduction of the personal income tax system—hinder the activation of the reform package. For this reason then, one must delete the balanced budget from among the economic policy priorities. A balanced budget is a low priority condition for development, and it is not the second goal either.

[NEPSZAVA] In your view, what has, what could have primacy in terms of economic policy?

[Hoch] Doubtless, an external balance is an outstanding and important economic policy goal. It is, however, economic nonsense to try to improve the external balance by squeezing out more and more, and more profitable exports out of a shrinking economy, and of a population whose standard of living is on the decline. The actual effect will be in the reverse: forced exports become increasingly inefficient. We recommend that they upgrade the significance of the domestic market, of the availability of goods both for productive and personal consumption. This purpose may be advocated, among other matters, by economic policy, by preparing and implementing certain developmental programs. Similarly, the fundamental requirement of reforming the economic mechanism should be to make enterprises sales oriented, and not only export oriented. The latter is a one-sided, and therefore unrealistic approach. The condition for enterprise survival should equally include the acquisition of the money belonging to domestic and CEMA buyers, as well as of dollar revenues. We feel that it is only on this basis that one can realistically provide an additional incentive to export.

[NEPSZAVA] One of the barriers to structural transformation is that the budget continues to provide large amounts of money to support the crisis sectors, and that it withdraws money from activities capable of producing income. How do you view this situation?

[Hoch] A vicious circle is taking shape in this respect. Activities which are to be discontinued are concentrated in certain regions where employment problems are substantial. In these regions a conscious economic policy development program should be implemented which absorbs—with proper retraining—the workforce which

becomes superfluous, and transfers that workforce to perform activities which indeed produce incremental income. The discontinuation of economically inefficient activities will not progress unless this developmental effort takes place.

[NEPSZAVA] In what condition is the Hungarian economy today?

[Hoch] It is undergoing "stagflation," which means that stagnation, decline is coupled with substantial inflation. Before anything else, the conditions of growth should be established gradually, because only these conditions can produce improvements. We are not envisioning growth in the general context, but rather in a framework corresponding with the requirements of the internal and external economies, of the marketplace. Growth and balance exert a continuous mutual effect on each other. At first modest growth tied to the structural change would occur, then, on the basis of that modest growth some further, more rapid growth may take place. The only reason why we need to hold back and to discontinue certain activities is that without doing so growth would once again cast the country in a situation characteristic of the late 1970's. We disagree with conceptions stated also at the cabinet level by which the condition of the economy first deteriorates, and then, later, it improves.

[NEPSZAVA] What requirements do you see as being of outstanding significance from the standpoint of continuing economic reform?

[Hoch] I will try to answer your question with a few, unfortunately simplified recommendations. The first, and perhaps most important suggestion is that the various steps of reform should be no less than what is necessary. Namely, if that does not take place, the old management system will integrate with itself the new elements, and no qualitative change will have taken place. Second: Certain reform packages should not contain more than what is necessary. In other words: It should not be burdened by excess, or by mistaken changes. Third: there should be no more change than what society can bear at a given point in time. Fourth: Society should be able to see and to accept the total reform conception of which a certain element is being implemented at a certain point in time. Fifth: Within a foreseeable period of time the population should sense the results of reform in terms of its standard of living and in terms of the recognition of its work. And finally, the sixth: Reform of the political mechanism should be of a kind which bars the possibility of a return to the old system, and provides a framework for the evolution of a socialist market economy, and not to a capitalist economy.

[NEPSZAVA] If I understand the matter correctly, the enterprise is the decisive link of the chain in the framework of changes you recommend?

[Hoch] Precisely. There is only one market from the standpoint of an enterprise, irrespective of whether its customer is a fellow Hungarian, or if he resides toward

the West or the East. The system of economic management is a definitive element of the situation and functioning of enterprises. For this reason it is indispensable that the role of state economic management gains definition. Unless there is a satisfactory answer to this question, in its essence the existing management system will remain. And then, quite naturally none of what is being said about letting the market determine the functioning of an enterprise will be realized.

[NEPSZAVA] I do not know whether I see this correctly, but is it not true that in defining the state's role in the economy the most important aspect is the modernization of the system of planning?

[Hoch] That is correct. Planning reform must extend to the subject of planning, to the approach, method and institutions of planning. Thus far, unfortunately, not much was said about planning reform. Although the official viewpoint continues unchanged in discussing the unity of planning and the market, in practice we are witnessing the disintegration of planning. The establishment of a real market, and making the real market function is the fundamental issue that concerns the fate of our economic system. But if, at the same time, we cannot establish the specific elements of the socialist economic system, we may be able to produce a weakly functioning, outdated market economy at best.

[NEPSZAVA] Is there a need for short range annual plans at all?

[Hoch] Under no circumstances, considering the present content of such plans. The market expresses and enforces certain developmental endeavors. These must not be hindered, to the contrary, favorable conditions must be established so that these forces can prevail. On the other hand, the development of certain activities cannot be entrusted only to the marketplace, instead the state must utilize certain instruments. Examples are the biotechnical and electronics programs; but of particular importance is the forceful development of the infrastructure, including residential construction.

[NEPSZAVA] It appears that the essentially missed transformation of the production structure renders structural unemployment unavoidable.

[Hoch] That is so, unfortunately. To a large degree, the burden of this must be accepted by society however. In other words, the chief burden created by structural change cannot be assigned to people whose workplace and work has become superfluous. The costs of structural change must become a public burden—while afflicting as little as possible injury to the right to work. It is for this reason that the system of financial support, of training and continuing education, and not least the system of job creation must be developed. In this endeavor the roles of the state, of social security, of trade unions and enterprises must be clarified.

[NEPSZAVA] In these days we talk less than before about the openness of the economy. In reality, what do economists mean by this concept?

[Hoch] Primarily it means how intensive the relations of a national economy are with other nations and the global marketplace. There exists a so-called quantitative and qualitative openness. In the former the emphasis is on the volume of foreign trade relations, in the latter the "how" question is underscored. In Hungary, toward the end of the 1950's, but mostly during the 1960's economic policy involved a conscious opening toward the external market. To say that this process continued in the 1970's is a mistaken belief. That is not true. Following the 1972, I could say "counter-reformation" not only the reform of the economic mechanism was turned back, but consistent with the former, they continued with extensive economic development. And they forced their way on this path even when in response to the effects of world market changes a change should have been made. Thus they increased the import needs of the country, and primarily those imports which required convertible currency. Accordingly, this was not a conscious qualitative opening. Instead we witnessed our economy being swept out to the world market. In its essence, our external economic institutional system and mechanism remained the same as before, when the convertible currency world market played an insignificant role in our relations.

[NEPSZAVA] Did we obtain machinery and equipment as a result of the increased capitalist imports?

[Hoch] The bulk of capitalist imports represented raw materials and semi finished products. I will recite some characteristic numerical data. In 1985 component parts imports represented a 6.5 multiple of the level of component parts imports in 1970. And while in 1970 domestic production satisfied almost two-thirds of the demand for component parts, in 1985 it did not satisfy even one-third of the demand. Accordingly, one cannot talk about the influx of new technology.

[NEPSZAVA] Based on your response I conclude that the so-called opening of the economy laid the foundations for the country's indebtedness.

[Hoch] In earlier days we frequently heard that the indebtedness was caused by changes taking place in the world market. Stated this way, this is not true. The fundamental reason for our economic troubles is that we did not revert to the reform that had its beginnings in 1968, and that paralleling this we did not change over to intensive economic development. All of the 1980's is marked by indebtedness, moreover with the increase of indebtedness. Quantitatively the economy continuous to be excessively open, except for the fact that the emphasis has shifted from import openness to export openness. It is for this reason that one should abandon the mistaken external economic policy which conserves an adverse economic structure even through its export policies. They are forcing an increase in the export volume to

convertible markets at any price, while disregarding requirements of efficiency. Qualitative openness must not be simply increased, it is necessary to place it on new foundations. The importance of this is also underscored by the change in the Common Market planned for 1992.

Catering Industry Privatization Method Disputed
*25000186a Budapest HETI VILAGGAZDASAG in
Hungarian 1 Apr 89 pp 54-55*

[Article by Zsuzsa Barna: "Privatization in the Catering Industry: Central Connection"]

[Text] Not only a few economists recommended this. For some time the state authority has urged too strongly that in the interest of more efficient operations the state enterprises' commercial, catering and service outlets be sold, i.e. privatized. While earlier the Ministry of Commerce would have used also administrative methods to accomplish this, it retreated somewhat in response to strong protest registered by affected parties.

All parties agree that changes ought to be made in the catering industry. The Ministry is urging changes, because in its view the 60 billion forints of state capital tied up in the catering industry works at a low efficiency rate. Enterprises too demand change, because of what they view as a mandatory operation of outlets which produces loss, as well as an employment of people not needed to run a business, all of which significantly deteriorate records at enterprise headquarters. And finally, the client with a thin wallet also yearns for a change. By now he has been fully squeezed out from restaurants. A difference of opinion exists only in regard to the method by which the change should take place.

The Ministry of Commerce is an advocate of quick action. This comes as no surprise, because with the enactment of the law on transformation the opportunity for intervention ceases to exist. At that time courts of registry begin to provide legal supervision to enterprises. The solution urged by the Ministry is to withdraw state capital from this sector. But while in December they felt that the initial steps must be administrative in nature, by now they lean toward a process consisting of self organized efforts by enterprises.

According to Ministry chief division director Attila Kiraly the process would take place in this way: "As the chief method of change, we would like to enable enterprises to implement the change. But self organization must be accompanied by increased efficiency, by the partial withdrawal of invested state capital, i.e. with a

proportionate increase in private ventures. Only in exceptional cases would we want to interfere by placing enterprises under state supervision. We would do so in regard to enterprises which do not manifest a preparedness to cooperate. We would consider the commencement of transformation as a signal which suggests a willingness to cooperate." The reason for quick intervention is that the maintenance of catering enterprise headquarters had cost 6 billion forints last year, according to the Ministry's calculations. The Ministry feels that as a result of the fact that the interest of these enterprises is contrary [to the Ministry's intent], one could assume that transformation would be protracted for years, at corresponding costs of tens of billions of forints.

But the enterprises have no guilt feeling about overpopulation at headquarters. South Pest Catering enterprise director Peter Boros proves this innocence in TURIZMUS by presenting their own example: "The total number of persons on staff is 1470, of these 130 are at headquarters. Of this apparatus, however, only 30 persons are engaged in merchandising, technical matters and other, expressly catering industry work. Seventy percent of those at headquarters prepare reports, statistical data and paperwork on orders from above, and 15 persons are employed in civil defense, the party, KISZ [Hungarian Communist Youth League] and the trade union."

It is apparent that the enterprises have no interest in running loss operations. They would be happy to get rid of for instance residential self-service restaurants—nicknamed "lion feeders" because of their size—except for the fact that no contractual entrepreneur is willing to operate these and other loss operations. Why don't they close them? Because local councils and social organizations would instantly protest by invoking the public interest, according to Sandor Merz for instance, who serves as the director of the North Buda Catering Enterprise.

Nonetheless the directors are less dissatisfied than the ministry is with the enterprises' efficiency. Namely, the directors claim that considering identical sales revenues, prior to the introduction of the entrepreneurial profit tax the catering industry paid twice as much in taxes than the private sector, according to director Boros. Although this difference may be attributed primarily to the difference in regulations affecting the two sectors, undoubtedly, the fact that the actual profits generally were higher at these enterprises also played a role. In any event, the Ministry is not concerned for possible tax losses resulting from privatization. The solution is simple they say, a tax apparatus capable of collecting state revenues must be established.

State and Cooperative Retail Business Network by Operating Form

	31 Dec 1987		30 Jun 1988		31 Dec 1988	
		of this catering		of this catering		of this catering
Controlled operation	13,636	3,154				
Free cash register	22,069	4,643	38,071	7,949	37,640	7,640
Simple income interest	1,596	297				
Income interestedness	6,086	2,039	6,042	1,848	6,005	1,832
Contractual	11,695	7,411	11,288	7,293	11,396	7,365
Totals	55,082	17,544	55,401	17,090	55,041	16,837

In 1987 the number of private merchants involved in catering was 7,998. In 1988 their number was 8,978.

The process promoted by the Ministry of Commerce has been set in motion by the enterprises already earlier. After all, what is Attila Kiraly saying? "Enterprises must evaluate their networks, and must decide which of their outlets they will sell, and which ones they will operate under contract or lease, as a stock corporation, limited liability corporation, unlimited partnership, or as a joint venture with foreign participation. Enterprise headquarters must be organized into independent accounting, maintenance and other ventures which can survive on their own in the marketplace. And parts of the enterprises which lose their previous functions should transform themselves into property management enterprises."

The Taverna Downtown Hotel and Catering Enterprise for instance, jointly with the South Buda and North Buda Catering Enterprise transforms into a limited liability corporation, and form other limited liability corporations with their outlet managers with whom they were in contractual or in a controlled relationship, to perform delivery and maintenance tasks. Within the limited liability corporation established to operate the Tukory beer hall, for instance, the share of the business manager and Taverna is 75 and 25 percent respectively.

Other places report similar initiatives. The North Buda Catering Enterprise established a limited liability corporation jointly with the manager of Radeberger, for the operation of that outlet. But to what degree and how fast this practice can progress is uncertain due to the widely used contractual system. Namely, the 5-year contracts entered into last year cannot be changed unilaterally by the enterprises, in other words, if the outlet managers themselves do not become partners as a result of such change.

To top it off, it is difficult to estimate demand these days when only five interested persons respond to every ten contract opportunities. There are businesses whose capitalized flat rate would be so high that a private individual would be hard put to pay it. For example, the inclusive rate for the Sipos restaurant is 48 million forints for a five year term, which translates into 9.6 million forints each year. Assuming a 20-percent interest rate on deposits, this means that the enterprise would have to receive 48 million forints for the business in order to ensure continued receipt of the income it was guaranteed thus far. The inclusive rate of the Tukory

beer hall for a five year term is 11.8 million forints. Should the enterprise offer that outlet for sale, its manager, Ida Nemeth would not be able to buy it.

Attila Kiraly felt it necessary to add: "Even among professionals there are misconceptions concerning the size of profits that can be reaped in commerce. Even though in most trades the efficiency of state commercial activities, under their present organizational form, achieves or exceeds the amounts paid in the form of interest on deposits. True: this index is undoubtedly distorted in the absence of a realistic assessment of the value of assets. Consequently, the interest of investors may be estimated only on the basis of practical experience. The change will take place in the course of a shorter or longer period of time, depending on the interest manifested."

Although signs indicate that the ideas of enterprises and of the ministry are not far apart, the enterprises received unexpected support from the Catering and Foreign Tourism Trade Union [VISSZ]. VISSZ secretary Mrs Aladar Redei stressed that the union "is not against reprivatization, instead it would like to see that reprivatization does not take place on command. The enterprises should have an opportunity to renew themselves. There is no need to make decisions behind a desk in Budapest concerning things that should be done in Nyiregyhaza for instance." The new union representing 100,000 workers has good reason to take this position. At its November organizational meeting it was determined that the monster of unemployment has reached also the foreign tourism and catering trade, and that therefore there is a need to protect workplaces. In their interpretation this need translates into this: trained workers should not be forced to abandon their trade by entrepreneurs who have no training.

Changing the Limits

At its March session the National Assembly modified Law No 1 of 1968 concerning domestic commerce, because a few paragraphs of that law conflicted with Law no 6 of 1988 concerning business organizations. One of the fundamental changes is that henceforth all players in the economy—including private merchants—are authorized to perform all business functions. This change was needed because thus far certain activities—wholesaling, the provision of mortgage loans conducted as a business,

advertising conducted as a business, and tour organizing and travel agency activities—could be conducted only by legal entities and companies organized by such legal entities. The other important change is that the contractual operation of businesses established by legal entities henceforth may be acquired not only by natural persons and by companies organized by such natural persons, but also by business organizations and legal entities. The change also provides an opportunity for all merchants, and not only to legal entities to arrange for the contractual operation of their businesses.

Bauxite Miners Protest Delayed Government Action

25000204b Budapest NEPSZAVA in Hungarian
12 Apr 89 p 4

[Text] On behalf of its 400 party members, the party committee of the Bakony Bauxite Mine is registering its protest against the fact that regarding the Heviz-Nyirad debate, the enterprise and the Hungarian Aluminum Industry Trust intentionally described their activities to the news media in a manner not consistent with the full truth. As a result public opinion was influenced to turn against bauxite mining, thus creating a not small amount of uncertainty and lack of confidence even among our workers.

Relative to the Heviz issue, at the initiative of our enterprise, the Hungarian Aluminum Trust submitted a detailed recommendation to governmental organs having jurisdiction (Ministry of Industry, State Planning Committee) over bauxite mining in Nyirad which requires water removal. Submitted in 1976 and again in 1982, these recommendations projected the removal of significantly less water along with the exploitation of the available bauxite pursuant to the original plans. Nevertheless, regarding this issue the first cabinet-level decision was reached only in 1985, at a time when only a small part of these plans could be implemented.

They do not regard the environmental protection problem as a political decision, and they object to any manifestation which intends to influence the expected Council of Ministers decision by way of political means.

POLAND

Law on Economic Operations Published

26000399 Warsaw DZIENNIKUSTAW in Polish
No 41, 28 Dec 88, item 324, pp 609-613

[Text]

Chapter 1

General Regulations

Article 1. Undertaking and carrying on economic operations is open and allowed for everyone on an equal footing in keeping with the conditions set forth in the provisions of the law.

Article 2.1. For the purposes of the present law, economic operations include manufacturing, construction, commercial, and service operations run for profit and for the account of the entity involved in such operations.

2.2. An individual or a corporate person may be an entity involved in economic operations, henceforth referred to as "an entity," as well as an organizational unit which is not a corporate person, provided that its area of operation includes the conduct of economic operations.

Article 3.1. An economic entity must comply with the conditions for conducting economic operations involving the protection of human life and health from danger, as well as other conditions set forth in the building, sanitary, and fire statutes, as well as in the regulations on environmental protection.

3.2. An economic entity must ensure that work, occupation, or actions in the scope of the economic operations conducted are performed by persons possessing relevant skills, insofar as provisions of other laws envisage the duty of possessing such skills.

Article 4. Within the framework of the economic operations they conduct, economic entities may perform actions and occupations which are not banned by the law.

Article 5. An economic entity may hire employees in an unlimited number, and without the brokerage of employment agencies.

Article 6.1. Economic entities are entitled to join voluntarily into organizations of economic entities.

6.2. Entering into organizations of economic entities is regulated by the law.

Article 7. Regardless of the type of ownership, economic entities are subject to levies under the public law, and make use of bank loans and the supply of the means of productions along uniform guidelines.

Article 8. The undertaking of economic operations by individuals and organizational units which are not corporate persons requires that a record be made in the register of economic operations henceforth referred to as "the register," except as provided by articles 9 through 11.

Article 9.1. Economic operations performed personally by an individual in the scope defined in paragraph 2, the proceeds of which are an additional source of income for the individual (gainful activity on the side) do not have to be recorded in the register.

9.2. The subject of economic operations referred to in paragraph 1 may include:

- 1) production of objects for personal, household and farm use, and of folk and artistic artifacts,
- 2) repairs and maintenance of objects for personal, household, and farm use, and of apartments with the use of one's own or [customer]-provided materials.
- 3) commercial activities consisting of sales of non-processed agricultural, vegetable and fruit gardening, and animal products, including meat from slaughtering cattle on the farm; forest turf; fruits of the forest; home-cooked meals, as well as the sale of objects referred to in paragraph 1.

Article 10. The following are not required to be recorded in the register:

- 1) undertaking production operations in agriculture in the sphere of crop farming, animal husbandry, vegetable gardening, and gardening,
- 2) undertaking production operations by corporate persons,
- 3) undertaking production operations which under the law require a license.

Article 11.1 Undertaking the economic operations of the following types requires a permit:

- 1) extraction of fossil resources covered by the mining law, and surveying for deposits of such resources,
- 2) processing and distribution of precious metals and jewels,
- 3) production and distribution of explosives, weapons, and ammunition,
- 4) production of pharmaceuticals, narcotics and psychotropic substances, sanitation items, and poisonous substances,
- 5) production, refining, and dehydration of alcohol, and extraction of alcohol from another product, as well as the production of vodka,
- 6) manufacturing of tobacco products,
- 7) maritime and air transportation, and provision of other aviation services,
- 8) operation of pharmacies,
- 9) foreign trade in goods and services enumerated in an executive order by the minister for foreign economic cooperation,
- 10) trade in works of art created before 9 May 1945,
- 11) services: pertaining to the guarding of persons and property, detective services, and services involving passports.

11.2. The Council of Ministers may eliminate by an executive order the obligation of obtaining a license for some types of operations enumerated in paragraph 1.

Article 12.1. The venue of an economic entity and the location where economic operations are performed (enterprise) should have an outdoor sign.

12.2. The sign referred to in paragraph 1 should include the name (company name), or the first and last names of the economic entity, and a brief definition of the kind of economic operations performed.

12.3. An economic entity performing manufacturing operations must make markings on the products put in circulation which include:

- 1) the name (company name), or first and last names of the producer and his address,
- 2) the name or symbol of the product, on top of the markings required by the regulations.

12.4. The provision of paragraph 2 applies likewise to stamps and seals used in economic operations.

Chapter 2

Registration Procedures

Article 13. Unless otherwise provided for by the regulations below, provisions of the Code of Administrative Procedures apply to registration procedures.

Article 14.1. The local agency of state administration with specific responsibilities in the matter of registering economic operations at the basic level is the registering agency.

14.2. The minister responsible for administrative affairs supervises the operation of local agencies of state administration with specific responsibilities in the matter of registering economic operations.

Article 15.1. The registering agency makes an entry in the register of economic operations in keeping with the application.

15.2. The registering agency officially delivers to an economic entity a certificate of entry in the register no later than 14 days from the day of filing, and transmits copies of the certificate to the relevant revenue agency.

Article 16.1. The application referred to in article 15, paragraph 1 shall include:

- 1) notation of the economic entity and its venue (place of residence), and, in the event that legal representatives for actions on behalf of the economic entity are appointed, also the first and last names of said representatives,

- 2) definition of the type of economic operations,
- 3) indication of the place where economic operations are performed,
- 4) indication of the date on which economic operations commence.

16.2. The register of economic operations is a matter of public record.

Article 17. The registering agency resolves to deny an entry in the register if the application:

- 1) involves economic operations to which provisions of the law do not apply,
- 2) involves economic operations not subject to licensing,
- 3) involves economic operations for which applications do not have to be filed,
- 4) contains technical deficiencies which have not been eliminated within the deadline set despite the citation [issued],
- 5) involves economic operations reserved exclusively for the cooperatives of the handicapped and the blind.

Article 18. An economic entity must report to the registering agency within 14 days any changes in the actual and legal status affecting the economic entity and economic operations which occur after the register entry is made, and which relate to the data included in the application. The provisions of articles 13 through 17 apply to declarations of changes accordingly.

Article 19.1 An entry in the register is to be canceled in the event of:

- 1) notification of discontinuing the performance of economic operations,
- 2) legally valid court ruling banning an individual from performing economic operations specified in the entry.

19.2. An entry in the register is also subject to cancellation if the registration agency made it in contravention of the law; in this case, provisions on the renewal of administrative proceedings and declaring a decision invalid apply accordingly.

19.3. The cancellation of an entry in the register occurs as a result of an administrative decision, within the time set by this decision. In the case referred to in paragraph 2, the time limit cannot be shorter than 3 months.

Chapter 3

Licensing of Economic Operations

Article 20.1. The issuance, rejection or revocation of a license is the responsibility of the main or central agency of state administration responsible for the area of economic operations subject to licensing, henceforth referred to as "the licensing authority."

20.2. Licenses are issued, revoked, and denied by an administrative decision.

20.3. The provision in article 16, paragraph 1 applies likewise to a petition for a license.

20.4. The license contains the data covered by the petition. The licensing authority may indicate in the license basic conditions for conducting economic operations.

20.5. The licensing authority may refuse to issue a license, or may restrict the scope and field of economic operations outlined in the petition for the license due to a threat posed to a significant interest of the national economy or state security.

Article 21.1. A license is issued for an indefinite period of time.

21.2. A license may be granted for a definite period of time:

- 1) if the person filing for a license so wishes,
- 2) in cases justified by protecting a significant interest of the national economy, defense capability, and state security.

Article 22.1. The licensing authority may revoke a license, or may restrict the scope and field of economic operations specified in the license if an economic entity fails to meet the basic conditions for performing economic operations which are outlined in the license.

22.2. A license may also be revoked along the guidelines outlined in article 19.

Article 23.1. [An entity] intending to undertake economic operations may file for a license issuance confirmation (a promise to issue a license).

23.2. A confirmation is issued by an administrative decision.

23.3. The term of its validity is indicated in a confirmation; it cannot be less than 6 months.

23.4. Within the term of validity of a confirmation, the issuance of a license for operations specified in the confirmation cannot be denied unless the actual or legal status specified in the confirmation has changed.

Chapter 4

Specific Regulations

Article 24.1. Provision of legal aid (legal services) to economic entities in the field of their economic operations by companies and cooperatives in which attorneys or legal advisers take part also amounts to economic operations for the purposes of this law.

24.2. Specifically, the legal aid (legal services) referred to in paragraph 1 means counseling, provision of advisory memoranda, as well as representation in litigation by an attorney or a legal adviser.

Article 25. Income tax payable by economic entities may not be set at a rate exceeding 50 percent of the income from their economic operations in the tax year.

Chapter 5

Changes in the Regulations in Effect

Article 26. In the executive order of the President of the Republic, dated 22 March 1928, on health service facilities (DZIENNIK USTAW No 38, item 382; 1934, No 110, item 976; 1939, No 30, item 200; 1946, No 1, item 3; 1948, No 55, item 434; and 1949, No 25, item 174, and No 65, item 530), article 57 and 76 are repealed, and article 66 is canceled to the extent regulated by the present law.

Article 27. In the law dated 18 November 1948 on the production of vines, young vines, and meads, and on the distribution of these products (DZIENNIK USTAW No 58, item 462, and 1958, No 45, item 224) articles 6, 7, and 18 are repealed.

Article 28. In the law dated 1 March 1949 on utilization enterprises (DZIENNIK USTAW No 18, item 113, and 1958, No 45, item 224), article 3, paragraph 1, and article 5 are repealed.

Article 29. In the law dated 1 July 1949 on veterinarian clinics (DZIENNIK USTAW No 41, item 297), paragraph 1 in article 11 is reworded to read:

"1. Veterinarian clinics are opened in the manner outlined in the regulations on economic operations."

Article 30. In the law dated 7 March 1950 on navigation and timber floating on inland waterways (DZIENNIK USTAW 1952, No 26, item 182, and 1960, No 29, item 163), article 11 is repealed.

Article 31. In the decree dated 24 June 1953 on tobacco growing and manufacturing of tobacco products (DZIENNIK USTAW No 34, item 144), article 3 is repealed.

Article 32. In the decree dated 6 May 1983—Mining Law (DZIENNIK USTAW 1978, No 4 item 12; 1984, No 35, item 186, and 1987, No 33, item 180), the following amendments are made:

1) articles 5 and 6 are repealed,

2) in article 8, the words "in keeping with the provisions of articles 6 and 7" are replaced with the words "in keeping with the provisions of law."

Article 33. In the law dated 22 April 1959 on combating unauthorized alcohol production (DZIENNIK USTAW No 27, item 169), the following amendments are made:

1) article 1 is to read:

"Article 1. Production, refinement, and dehydration of alcohol, as well as vodka production, require a license issued in a manner outlined in regulations on economic operations."

2) in article 3, paragraph 1, the words "of the permit required" are replaced with the words "of the license required."

Article 34. In the law dated 16 November 1960 on the geological law (DZIENNIK USTAW No 52, item 303, and 1974, No 38, item 230), paragraph 1 of article 4 and article 5 are repealed.

Article 35. In the law dated 2 December 1960 on railways (DZIENNIK USTAW 1970, No. 9, item 76; 1971, No 12, item 115; 1974, No 24, item 142; 1982, No 7, item 54, and 1987, No 33, item 180), the following amendments are made:

1) in article 7, the words "except as provided by article 33" are replaced with the words "with the exception of railroads for public transportation of persons for the purposes of entertainment, and railroads designed for tourist and athletic purposes,"

2) articles 33 and 34 are repealed,

3) in article 35, point 1 is reworded to read:

"1) will determine the extent of application of the provisions of the law to the railroads referred to in article 1, paragraph 1, point 1 and used for the public transportation of persons for the purposes of entertainment, and to the railroads referred to in article 1, paragraph 1, point, 2, designed for tourist and athletic purposes, and will determine the agencies responsible for technical supervision of the maintenance and safety of traffic on these railroads, as well as the manner in which this supervision is carried out."

Article 36. In the law dated 31 January 1961 on arms, ammunition, and explosives (DZIENNIK USTAW No 6, item 43, and 1983, No 6, item 35), articles 17 and 23 are repealed.

Article 37. In the law dated 27 November 1961 on highway transportation and domestic freight forwarding (DZIENNIK USTAW No 53, item 297, and 1984, No 53, item 272), articles 7 through 9, 11, 18, 19, and 23 through 25 are repealed.

Article 38. In the law dated 31 May 1962—Aviation Law (DZIENNIK USTAW No 32, item 153; 1984, No 52, item 272; and 1987, No 33, item 180), paragraphs 1 and 2 in article 65 and article 71 are repealed.

Article 39. In the Code of Civil Procedure, in paragraph 2 of article 87, in the first sentence, following the words "units of the socialized sector" the words "another economic entity performing economic operations along the guidelines set forth in other regulations" are added.

Article 40. In the Misdemeanor Code, following article 60, article 60¹ is added which reads:

"Article 60¹. Paragraph 1. He who performs economic operations without the required record in the register of economic operations, or without the required license is subject to the penalty of restriction of freedom or fine.

"Paragraph 2. He who fails to perform the duty of reporting to the register changes in the data included in the [register] entry is subject to the same penalty.

"Paragraph 3. He who, while performing economic operations, does not mark the venue and the locality where such operations are performed, or, in performing economic operations, brings into circulation goods without the required markings is subject to the penalty of restriction of freedom or fine."

Article 41. In the law dated 24 October 1974—Construction Law (DZIENNIK USTAW No 38, item 229; 1981, No 12, item 57; 1983, No 44, items 200 and 201; 1984, No 35, items 185 and 186; and 1987, No 21; item 124), article 26 is repealed.

Article 42. In the law dated 16 September 1982—Cooperative Law (DZIENNIK USTAW No 30, item 210; 1983, No 39, item 176; 1986, No 39, item 192; and 1987, No 33, item 181) the following amendments are made:

1) in article 181, paragraphs 2 through 4 and the designation of paragraph 1 are removed,

2) article 181a is added which reads:

"Article 181a. Paragraph 1. Professional and social rehabilitation of the handicapped and the blind through work at a jointly operated enterprise is the field of operations of cooperatives of the handicapped and cooperatives of the blind.

"Paragraph 2. Cooperatives of folk and artistic crafts create new values, and promote traditional values of applied culture, organize and develop folk and artistic crafts, arts, and the artistic industry.

"Paragraph 3. With a view to ensuring conditions for performing statutory tasks which are of particular social significance, the cooperatives referred to in paragraphs 1 and 2 make use of comprehensive assistance of the main, central, and local organs of power and state administration, and of exemptions and reductions in levies under the public law which are specified in other regulations.

"Paragraph 4. With a view to providing conditions for the professional rehabilitation of the handicapped and the blind in the process of work, the Council of Ministers may, by an executive order, grant to the cooperatives referred to in paragraph 1 the exclusive right to manufacture some goods and render some services, and at the same time determine whether and to what extent previous manufacturing and service operations may be conducted by other entities conducting those economic operations."

Article 43. In the law dated 26 January 1984—the Press Law (DZIENNIK USTAW No 5, item 24, and 1987, No 37, item 209) the words "of issuing permits" are omitted in article 30, paragraph 1 and paragraph 6.

Article 44. In the law dated 3 July 1984 on physical education (DZIENNIK USTAW No 34, item 181) the following amendments are made:

1) in article 12:

a) paragraph 5 is reworded to read:

"5. Within the scope set forth in the law, operations in the field of mobile recreation may be undertaken by economic units not enumerated in paragraphs 1 through 4 along the guidelines and in the manner set forth in regulations on economic operations."

b) paragraph 6 is repealed;

2) in article 26, paragraph 3 is reworded to read:

"3. Within the scope set forth in the law, operations in the field of mobile rehabilitation may be undertaken by economic units not enumerated in paragraphs 1 and 2 along the guidelines and in the manner set forth in regulations on economic operations."

3) in article 29, point 2 the words "the guidelines and procedures for issuing permits, as well as" are omitted.

Article 45. In the law dated 15 November 1984 on communications (DZIENNIK USTAW No 54, item 275, and 1987, No 33, item 180), point 2 in article 1, paragraph 1, paragraph 2 in article 2, and article 5 are repealed.

Article 46. In the law dated 28 January 1987 on pharmaceuticals, sanitary supplies, and pharmacies (DZIENNIK USTAW, No 3, item 19), the following amendments are made:

- 1) paragraph 1 of article 5 is repealed;
- 2) paragraph 1 of article 29 is repealed;
- 3) in article 32:
 - a) paragraph 1 is repealed,
 - b) paragraphs previously marked 2 and 3 are marked paragraphs 1 and 2,
 - c) a new paragraph 3 is added which reads:

"3. Pharmacies operated by organizational units of the state are socialized health care service enterprises, or organizational units of such enterprises."
 - d) paragraph 4 is repealed;
- 4) paragraph 1 of article 37 is repealed;
- 5) in article 41, paragraph 1, point 1 the words "of organizational units operating" are replaced by the words "in which is operated";
- 6) in article 47, paragraph 2 is deleted.

Chapter 6

Provisional and Final Regulations

Article 47.1. Economic operations performed as of the day the present law takes effect on the basis of authorizations secured before that day is subject for an automatic entry in the register, maintained on the basis of regulations in this law.

47.2. Until the entry referred to in paragraph 1 is made, previous authorizations for performing economic operations remain in force.

47.3. Provisions of paragraphs 1 and 2 do not apply to economic operations which, pursuant to the provisions of the present law, may be conducted on the basis of required licenses. Economic entities conducting such

operations as of the day the present law takes effect will approach the relevant agency for the licenses required, except as provided in paragraph 4.

47.4. Licenses to engage in foreign trade which have been issued remain valid until the date of expiration.

Article 48. The proof of possessing the skills needed to engage in crafts, trade, and services obtained before the day the law takes effect is considered to be the proof of possessing professional qualifications required in keeping with the provisions of the present law.

Article 49.1. Organizations of craftsmen, associations of private trade and services, associations of private transportation enterprises, the Main Council of Associations of Private Trade and Services, and the Main Council of Associations of Private Transportation Enterprises operating to date may, within 12 months of the day the law takes effect, transform themselves into organizations of economic entities in keeping with the principle set forth in article 6. They will operate along the previous guidelines until the time of transformation. If the transformation does not occur within the period specified, the organization previously in operation is to be liquidated along the guidelines and in the manner provided for in the regulations previously in effect.

49.2. Organizations formed as a result of transformation assume the rights to assets and liabilities of the previous organizations.

Article 50. Proceedings on permits for performing economic operations initiated before the day the law takes effect, which have not ended in a final decision before that day, will proceed in keeping with the provisions of the present law.

Article 51. Until regulations concerning the creation of representative offices of foreign corporate persons and individuals in the territory of the People's Republic of Poland are issued, regulations issued on the basis of article 1, paragraph 3, point 2 of the law dated 18 July 1974 on the conduct of trade and certain other operations by units of the non-socialized sector (DZIENNIK USTAW 1983 No 43, item 193, and 1984, No 5, item 24) remain in effect.

Article 52. Regulations issued on the basis of article 7, paragraph 2 of the law dated 31 January 1985 on small-scale manufacturing (DZIENNIK USTAW No 3, item 11; 1987, No 33, item 181; and 1988, No 19, item 132) remain in effect until regulations concerning the conditions for operations and development of cooperatives of the handicapped and cooperatives of the blind are issued.

Article 53. The following are invalidated:

1) executive order by the President of the Republic dated 22 March 1928 on professional skills of persons involved in the independent business of shoeing horses (DZIENNIK USTAW No 36 item 334, and 1932, No 67, item 622),

2) executive order by the President of the Republic dated 27 October 1933 on salt sales (DZIENNIK USTAW No 84, item 616),

3) law dated 18 February 1938 on enterprises requiring special confidentiality (DZIENNIK USTAW No 12, item 79, and 1958, No 45, item 224),

4) decree dated 2 August 1945 on the sales of tobacco products (DZIENNIK USTAW No 31, item 184),

5) decree dated 30 November 1945 on licensing enterprises of the catering industry (DZIENNIK USTAW No 57, item 332, and 1958, No 45, item 224),

6) law dated 3 January 1946 on founding new enterprises and the support for private initiative in industry and commerce (DZIENNIK USTAW No 3, item 18, and 1958, No 45, item 224),

7) decree dated 19 August 1946 on licensing tanneries, hide-salting and hide-drying enterprises, as well as certain footwear and transmission belt factories (DZIENNIK USTAW, No 43, item 250, and 1958, No 45, item 224),

8) law dated 10 February 1949 on trade in farm animals and the products of their slaughter and processing (DZIENNIK USTAW, No 21, item 135; 1952, No 44, item 300; 1958, No 45, item 224; and 1970, No 29, item 245),

9) decree dated 2 May 1953 on licensing the commercial processing of textile raw materials and semi-finished products (DZIENNIK USTAW, No 25, item 98, and 1958, No 45, item 224),

10) law dated 27 November 1961 on national fairs and exhibitions (DZIENNIK USTAW No 53, item 299),

11) law dated 8 June 1972 on the operation and organization of crafts (DZIENNIK USTAW, 1983, No 7, item 40; 1984, No 5, item 24; 1985, No 3, item 12; 1986, No 17, item 89; and 1987, No 33, item 181).

12) law dated 18 July 1974 on the operation of trade and some other kinds of operation by units of the non-socialized sector (DZIENNIK USTAW, 1983, No 43, item 193; and 1984, No 5, item 24),

13) law dated 26 February 1982 on permits to engage in foreign trade (DZIENNIK USTAW No 7, item 59, and 1987, No 33, item 181),

14) law dated 31 January 1985 on small-scale manufacturing (DZIENNIK USTAW No 3, item 11; 1987, No 33, item 181; and 1988, No 19, item 132).

Article 54. The law takes effect on 1 January 1989.

For the Chairman of the Council of State: K. Barcikowski
Secretary of the Council of State: Z. Surowiec

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